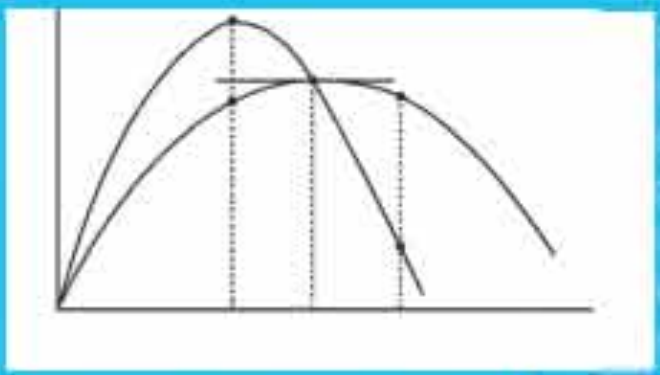
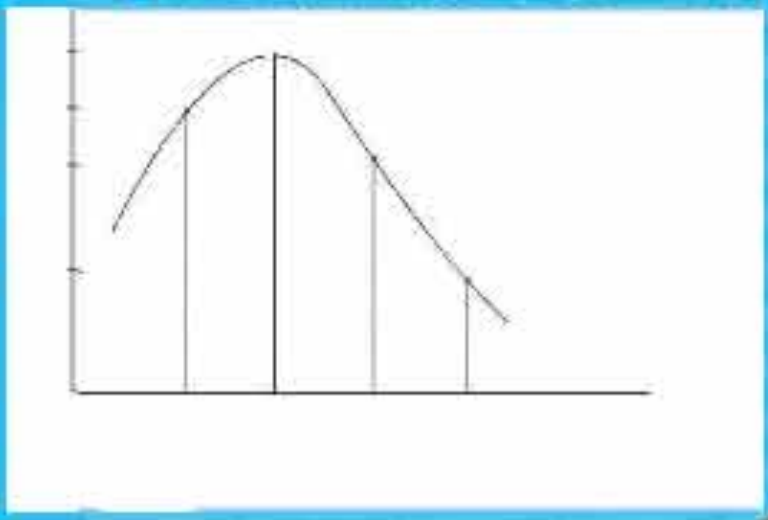
Economics

Classes Nine-Ten





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Economics

Classes Nine-Ten

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Preface

The aim of secondary education is to make the learners fit for higher education by flourishing their latent talents and prospects with a view to building the nation with the spirit of the Language Movement and the Liberation War. To make the learners skilled and competent citizens of the country based on the economic, social, cultural and environmental settings is also an important issue of secondary education.

The textbooks of secondary level have been written and compiled according to the revised curriculum 2012 in accordance with the aims and objectives of National Education Policy-2010.Contents and presentations of the textbooks have been selected according to the moral and humanistic values of Bengali tradition and culture and the spirit of Liberation War 1971, ensuring equal dignity for all irrespective of caste and creed, religion and sex.

The present government is committed to ensuring the successful implementation of Vision 2021. Honorable Prime Minister, Government of the People's Republic of Bangladesh, Sheikh Hasina expressed her firm determination to make the country free from illiteracy and instructed the concerned authority to give free textbooks to every student of the country. National Curriculum and Textbook Board started to distribute textbooks free of cost since 2010 according to her instruction.

It is indispensible for the students to be concerned about the economic activities and economic development of a country. Focusing on this aspect, the Economics book for classes Nine-Ten is designed. Aspects such as introduction and importance of modem economics, utility, demand, production, market, banking system, public finance of Bangladesh, important economic aspects of Bangladesh, economic system of Bangladesh government are presented in an easier and comprehensive way. These issues are helpful to broaden the outlook and change the demand of the student.

Considering the challenges and commitments of 21st century and following the revised curriculum, the textbook has been written. The textbook has been revised and re-edited by a prominent educationist to make it learner-friendly in 2017.

I thank sincerely all for their intellectual labor who were involved in the process of revision, writing, editing, art and design of the textbook.

Prof. Narayan Chandra Saha
Chairman
National Curriculum and Textbook Board, Bangladesh

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Chapter One
Introduction to Economics

From cradle to grave, human beings continually struggle with financial problems for their survival. Throughout their lives, they try to overcome various obstacles. The subject economics helps them in numerous ways to overcome these problems or obstacles. Economics plays a very significant role in achieving human, social and national development. So to learn about this subject is very important. This chapter discusses briefly the origin and development of economics, the major economic problems, the definition and principles of economics, the circular flow of income and the different economic systems.

After studying this chapter, we will be able to

- describe chronologically the origin and development of economics.
- explain the mutual relationship between scarcity and unlimited want.
- describe the concept of economics.
- describe the ten main principles of economics.
- introduce the various economic systems.
- evaluate the comparative advantages and disadvantages of different economic systems.

1.1 The Origin and Development of Economics

The economics that we study today was not so complex in earlier times. The way of living of humans was much simpler in ancient societies. Food, clothing and habitation—these were the basic needs of people. The practice of exchanging goods was very limited. Basically, physical labour was the only means of production. There were no class-divisions among people in society.They were united into a body with no feeling of defeat or victory to them; it was the main pinciple of premitive society . Production and consumption were the main aim of that society . During the time of the prophet Moses (a:), in 2500 BC in Hebrew Civilization, there had been some simple discussions about economics in religious and philosophy books. Law, religion, morality, philosophy and economics were all discussed together at that time. There was no existence of economics as a separate discipline. Knowing about production, consumption and running the day-to-day family life was then called economics.

The English word 'economics' has been derived from the Greek word 'oikonomia'. Oikonomia means the management of the household. Plato (427 - 347 BC) and Aristotle (384 – 322 BC) were the two great thinkers of the Greek Civilization. They have discussed various fundamental topics of economics, including individual property, the wages of the labourers, slavery system and interest.

In ancient India in the 4rth BC, Koutillya's 'Orthoshastra' (Treatise on Economy) focused elaborately on the issues of politics, society, economics and military affairs of the whole country. From the last part of the 16th century till the last part of the 18th century, the expansion that occurred in the international trade in England, France and Italy has been termed as Mercantilism. For increasing the wealth of the country, the power of the state and making the surplus in its trade, the merchants of England exported more and imported less. Goods produced in England were exported to different countries of the world in huge quantities and valuable minerals (gold, silver, diamond, etc.) were

imported. By the middle of the 18th century, the French took a stance against the luxurious lifestyle of the rich people of their country, excessive taxation and the mercantilism of England, and propagated the tenets of Physiocracy. According to the physiocrats only agriculture, including mining and pisciculture, was the productive sector. On the other hand, industry and trade were considered non-productive sectors.

In this way, during the ancient and the Middle Ages discussions about economics had been gradually becoming complicated. However, economics received the recognition as a separate discipline when the British economist Adam Smith wrote his famous book, 'An Inquiry into the Nature and Causes of the Wealth of Nations' in 1776. This book by Smith is the basis of today's economics.

Task: Write chronologically about the origin and development of economics.

1.2 Two Major Economic Problems: Scarcity and Unlimited Wants

Human beings cannot get everything they desire. This is known as want. There is no end to this need in life. For example, you are a student. Suppose you have one thousand taka. You need a shirt, a pair of pants and a pair of good shoes. In this way you will find that you need many more things. But you have only one thousand taka. Compared to your needs, the amount of money is very little. In economics, this is known as 'scarcity of resources'. Because of scarcity, a person chooses or selects things according to their importance. If there had been no need to choose, there would have been no need for this discipline, economics.

Scarcity and Unlimited Wants

The main problem of humans is not to be able to get everything according to their wants. To produce any goods (e.g. books) or services (e.g. medical services), resources are necessary. But 'wealth is limited.' Thus it is possible to get limited goods by means of the limited wealth. Therefore, with limited wealth all the necessities in life cannot be fulfilled. This is indeed the reason of scarcity.

Scarcity would have not been created if there had been lesser needs. Famous economist Professor L. Robins says, "Economics is a science that analyses human behavior related to the combination of unlimited wants and alternatively usable scarce resources." According to economist Samuelson, since resources are scarce, the question of the best utilization of the resources in society holds such importance. The want for resources obtained from nature like sunlight or the wind is very high. But we do not have to spend any money to get these. Usually there is no scarcity of these resources. Since the wants of humans are too many and the resources are limited, all their wants cannot be satisfied. Amongst numerous wants, human beings satisfy only a few. And they fulfil these wants judging the importance of these wants. Humans satisfy the most necessary wants on a priority basis. This is known as selection of wants.

1.3 Concept of Economics

With the development of knowledge and science, the sphere of economics has grown as well to a great extent. As a combination of the knowledge of economics from both the past and the present, economics as a discipline is now much developed or enriched. Among those who have presented economics as a subject or discipline, Adam Smith, David Ricardo and John Stuart Mill think of economics as a science of production and distribution of wealth. Of them Adam Smith is regarded as the father of economics. This trend of economics is known as classical economics. Back then the name of economics was Political Economy.

Definition of Economics Given by Adam Smith: "Economics is a science that explores the nature and reason of the wealth of nations." Economics grows centring wealth or resources. So to acquire resources is the main purpose of people's economic activities. The weaknesses of Smith's definition are: 1) In this definition there is no mention of how economics would satisfy people's unlimited wants by means of their limited resources. 2) Although national resources have been given more emphasis in this definition, persons and their activities have been ignored. 3) Acquiring resources has been emphasized whereas how these resources would be acquired has not been mentioned. 4) In this definition, resources stand for goods, but there is no mention of services.

Definition of Economics Given by Professor Marshall: Professor Alfred Marshall emphasizes human welfare more than resources. He says, "Economics discusses the general activities of human life." The basic point of discussion about economics is the income of human beings and their expenditure of that money for the purpose of satisfying their wants. That is, the main purpose of economics is to accomplish human welfare. Marshall has only discussed the accomplishment of human welfare in real life. Whereas at present, the problem of scarcity is the main problem of economics, and this basic issue has not been taken into consideration.

Definition of Economics Given by Professor L. Robins: Professor L. Robins has defined economics in such a way that it has been much more acceptable than the definitions given by others. In his opinion, "Economics is a science that analyses human behavior related to the combination of unlimited wants and alternatively usable scarce resources." The characteristics of this definition are: 1) Human wants are unlimited and the nature and volume of the wants are different. 2) The resource and time to fulfill the wants are very limited. 3) One very important part of the discussion of economics is how to adjust unlimited wants by means of limited resources. 4) As the supply of the resources is limited, we have to try to satisfy our varied wants with the same resources. 5) Wants are to be satisfied on the basis of their priority. For these reasons, this definition is considered to be a more acceptable one.

Criticism of the Definition of Robins: 1) Robins has observed the subject matter of economics from a wider point of view. 2) Human beings often like some things in their personal and social lives, which are not discussed in economics. 3) It is not mentioned that the main purpose of economic activities is human welfare. 4) The social position of economics has not been discussed in Robins' definition. 5) The economic development of the modem world has not been included in his definition. 6) Robins has only discussed economics with price, but he skipped to discuss national income, employment system, investment, distribution, etc. In the end it can be said that Robins' definition is comparatively abstract. However, no theory in economics is above criticism. Therefore, in spite of the flaws, the definition provided by Robins is more acceptable, because it has correctly identified the main problem in ecomomics.

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1.4 The Ten Principles of Economics

We have to meet unlimited wants from the perspective of limitation of resources in our society. According to economist Gregory Mankiw, before discussing concepts and ideas of economics, it is important to know about the ten fundamental principles of economics. These are:

1. People Face Trade-offs

To get something that we like we often have to sacrifice some other thing that we also like. To give an example, if you spend all your time studying economics, you will have to keep off from studying Bangla or English. Similarly, if you are watching television, you will not be able to spend time for playing. If the government is spending more for the military sector in the budget, it is reducing its expenditure in other civil sectors including the education sector. That is, a person in society chooses an alternative for a trade-off.

2. Opportunity Cost

If you are spending time at school for your studies, you cannot help your father or mother with their work at home or outside. Whereas if you were involved in any economic activity that your parents are doing, they would be monetarily benefitted. But you are studying at school (not helping with your parents' economic activity). Here not being able to work for your parents because of your studies is the opportunity cost of studies.

3. Rational People Think at the Margin

People think at the margin. After the feast at a wedding ceremony, some of you may think that it would have been better if you had eaten a little more, and some others may think that it would have been better if you had eaten a little less. This little more to eat or a little less to eat is the marginal eating. Suppose, you have achieved an A in economics. You might think that if you had studied a little more, you could have obtained an A+. Human beings also think of marginal advantages and disadvantages. For example, you ate three bananas one after another. The third banana is the marginal banana. The satisfaction you got from the marginal banana is known as the marginal utility. To have that third banana,

the money that you have spent is known as the marginal cost. As a rational being, you will eat the marginal banana only when the marginal utility will be greater than the marginal cost.

4. People Respond to Incentives

Inspiration or incentives play an important role in every task. If people get incentives, they perform their job with better care. If your father tells you that he will buy you a bicycle if you can get a GPA 5, surely your enthusiasm for studies will be greatly enhanced. Similarly, in economics if the labourers get incentives, they will produce more.

5. Trade can Make Everyone Better-Off

The United States produces cars cheap, and we can produce garments cheap. In the circumstances, if we trade with the States giving them our garments in exchange for their cars, we both will profit from the trade.

6. Markets are Usually a Good Way to Organize Economic Activities

Economic activities are organized by the market system. The reciprocal actions and reactions between the firms and the households determine the price of any goods. The owners of the firms supply goods observing the market demands and numerous households buy these goods and services as per their incomes and needs. So market prices are determined by the actions and reactions between demand and supply.

7. Government can Sometimes Improve Market Outcomes

The market system is run by the signal of the 'invisible hand'. But it always does not turn out to be correct. For many reasons, the invisible hand fails to succeed. In these situations governmental interventions are a must. The interventions are necessary to ensure the proper supply of goods like education, health, law and order, electricity, etc., the proper utilization of resources, and to prevent the centralized monopoly of resources, environmental pollution and corruption.

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8. A Country's Standard of Living Depends on Its Ability to Produce Goods and Services

The standard of living of those countries is high whose capabilities for producing goods and services are better. The production capacity of the people of developed countries is much better and as a result their per capita income is much higher. The per capita income in 2016 in the United States was $56116 and in Japan was $40763 (Source: The World Bank). As a result, they have better food, better healthcare and better civic facilities. The working capacity of the workers also increases. They can produce many more goods and services in less time and less labour.

9. Prices Rise When the Government Prints Too Much Money

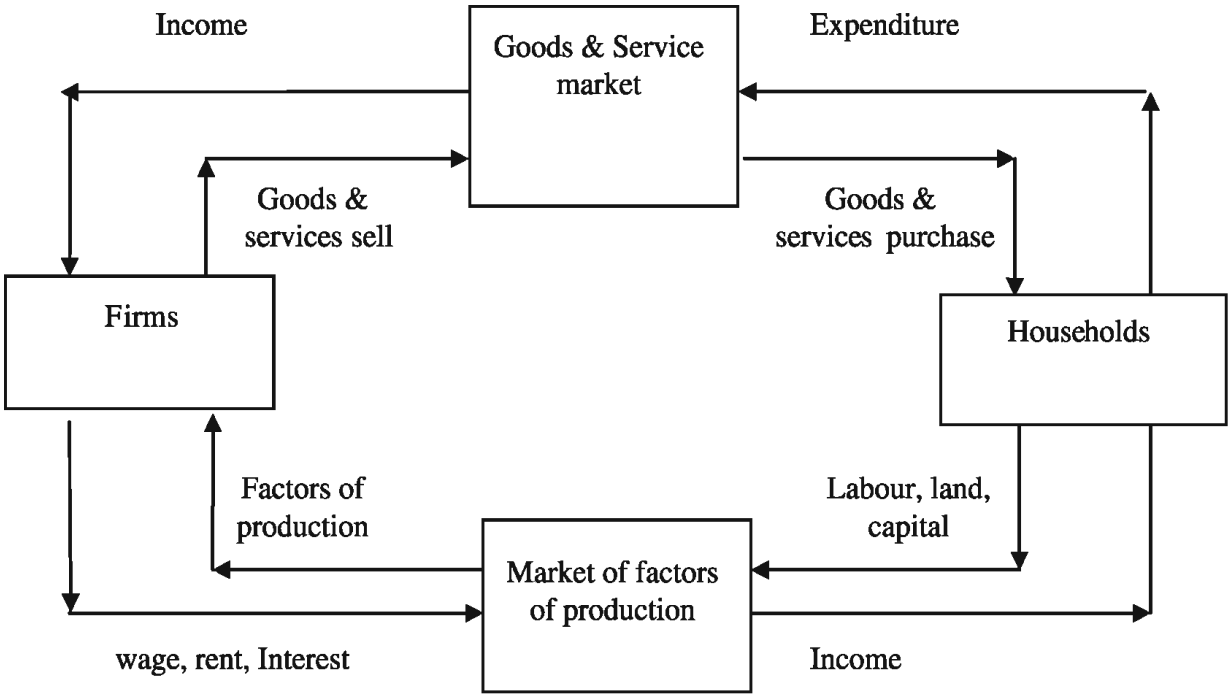
The power to print money rests with the central bank. If the central bank prints too much money, inflation will occur. That means the price level of goods rises. Inflation causes the value of money to fall. For example, you can get the necessary materials for your studies, spending taka 500. But when the value of money falls, you will have to spend taka 650 to get the same things, which is taka 150 more (650-500=150). As the prices of goods go up, you have to spend more money to get the same things.

10. Society Faces a Short-Run Trade-Off between Inflation and Unemployment

The rise in the price level of the goods is known as inflation. The unemployed people are those labourers who want to work at the market wages but cannot get jobs. When inflation decreases, unemployment rises. On the other hand, when unemployment diminishes, inflation increases.

1.5 The Circular Flow of Income (the two sectors)

There are two types of agents in a simple economy: consumers or households and producers or firms. How the income and expenditure flow in a circular motion between these two types of agents are shown here in the diagram below.



Circular flow of Income

In the above diagram, it is observed that there are two types of agents in economics. For example, the firms and the households, Firms or the owners of the firms purchase the materials of production. Later they organize these materials and produce goods and services. They supply these produced goods and services to the market or sell these. On the other hand, households earn by selling different elements of production under their ownership such as labour, land and capital. (Labour earns wages, the owners of land earn rents and capital earns interest. Meeting all these expenditures, an entrepreneur sells the produced goods or services to the market. The entrepreneur keeps excess profit for themselves before selling produced goods or services. For this reason the surplus income of the entrepreneur is called profit). The households purchase goods or services from the firms with their income. Thus the wheel of economy revolves around the circular flow of produced goods, services and income. And this is known as **"the circular flow of income".**

1.6. Different Types of Economic Systems

We know economics is the science of choice. We have known that economics always tries to choose the right way for producing the highest production, highest consumption and the highest welfare by using limited wealth. For this reason economic system is always searching the answers to the three questions–

a) What will we produce and what will we not produce? For instance, will we produce guns, or clothes?

b) What type of technology or machine will we use for production? What do we want to produce?

c) For whom will we produce? Who will consume it?

To answer these questions is the main responsibility of different economics in different countries. In this respect we find their economic systems. Total economic systems of the world can be divided into three fundamental systems. These are (1) Market system or Capitalist system (2) Command system (3) Traditional economic system. We have to keep in mind that no system exists independently. They always exist in a mixed system.

The characteristics of the three different economic systems are mentioned below–

1. Market System or Capitalistic System

a) In this system all the decisions are determined according to the logic of the market. For example, if the demand and price of any goods is higher, the production of these goods will also be higher. The relative demand of the market will determine the order of production.

b) Due to technology the production cost can be the lowest in the market. Goods will have to be produced by using this technology.

c) The owners will earn or consume according to price of production determined in the market.

So it is observed that the production, the process of production and the distribution of production are determined by market through the competition of the owners of materials and the sellers and buyers. The buyers and sellers are the personal owners of the total wealth and production materials. The price of productions and others are determined by the internal activities of the buyers and sellers.

2. Socialistic or Command System

In this system the central authority determines what products will be produced. Here the owner of the total wealth and production materials is the state or society. As their representative the Central Planning Ministry finally determines everything such as the types of production, choice of technology, price, income and consumption, etc. All the players of economy have to follow their instructions as law. So, this system is called the command system. In this system priority is given to social interest or social welfare, other than self interest or profit.

3. Traditional Economic System

There is no strong presence of state-owned or planning commission in some aboriginal societies of the world where primitive economy exists. In those societies a person generally takes economic decision or conducts economic activities according to the religions values or the customs of their forefathers. As custom and social beliefs determine all their economic activities in this system (production, consumers, technology, etc.), these economic systems are called traditional economic system. As traditional economic system we can include the economic system of the tribal people in our country or the economic system of the non-vegetarian community in the U.S.A. or the economic system on the basis of shariah in some Islamic states.

Mainly market and capitalistic economies exist in the present world and the planned economy is running in some socialist countries. Islamic economic system exists in some countries including Iran and Saudi Arabia. If we assess strictly, we will find that everywhere other economic systems work partially in

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the economy systems in these countries. For this reason it can be said in the final analysis that all the economic systems of the world are mixed economy systems. We find a mixed economic system in our Bangladesh. Here market is the main controller in private sectors; state or planned decision is the main controller in the state sectors; the instruction of Shariah is the main controller in Islamic institutions (Islami Bank). All these sectors influence one another. Market, regulations or Islamic values are not able to play dominant roles in our economy.

Capitalistic Economy

In this system production materials are private properties. Without any interference from government in automated price system the entire economic activities are run by non-governmental initiatives. This type of economy is called Capitalistic economy. The capitalistic economy started in whole Europe during the end of the 18th century after the French revolution. Classical economist Adam Smith and his followers used to support this economic system.

Characteristics of Capitalistic Economy

The major characteristics of the capitalistic economy are mentioned below:

1. **Private Property:** In capitalistic economy, majority of the resources or the materials of production of the society are under individual ownership. The owner can exchange or consume these properties.

2. **Private Enterprise:** In capitalism maximum economic activities, e.g. production, exchange, distribution, consumption, etc are run by individual enterprises. Governmental interference is not expected in these enterprises.

3. **Free Competition:** In this system, many firms get involved in free competition regarding the production of goods and services. As a result, the prices of the goods remain less and newer inventions are possible.

4. **Automatic Price System:** The price of the goods is determined through the bargaining between the sellers and the buyers.

5. **Profit:** The producer, in capitalism, produces for the target of the highest profit possible.
6. **Consumers' Liberty:** Every consumer is free to buy and consume goods according to his/her individual choice, wish and taste. The producer supplies goods as per the demand of the consumer and the opportunity of profit.
7. **Inequality of Income:** In a capitalistic society there remains a greater inequality of income between the rich and the general people in society. To some extent, unemployment is inevitable in capitalistic economy.
8. **Role of the Government:** Government, in this system, remains engaged in the maintenance of law and order, protecting the state, and securing the rights of wealth.

The activities of the capitalistic economy are run in different sectors of economy, through mutual dependence. None works selflessly; rather everyone performs the economic activities for their own interests.

Socialistic or Command Economy

In socialistic economy, the state or the society holds the ownership of most of the resources and factors of production. State or society is the owner of the majority of the industries and institutions of production and they are run by the directions of the government. The state or the society decides which products will be produced and in what quantity, how and for whom.

Characteristic of Socialistic Economy

1. **State or Social Ownership Resources:** In socialistic economy government is the owner of most of the resources (land, industries, mines, etc.) and factors of production. Co-operative organizations and joint social groups work under state.
2. **Central Planning:** State or government decides all planning centrally. The productions and distributions are done according to this plan.

3. **Lack of Consumers' Freedom:** In most of the cases in socialism, the consumers consume the goods that are produced by state and central planning. No consumer produces or consumes anything spending money on his/her own will.
4. **Lack of Free Competition:** As the production in maximum cases is run by state enterprise, there is no free competition among the huge number of private entrepreneurs.
5. **Absence of private Profit:** In socialism production is run for national demand and overall welfare of the state not for private profits. So no industry is developed by private enterprises. Agriculture, industry and trade all are under the ownership of state and social ownership. So there is no private profit.

Group task: Present the comparison of the capitalistic and socialistic economic system.

Mixed Economic System

The economy in which individual ownership and private enterprise exist side by side with state enterprise and control, is known as the mixed economy. That is, in this economic system, private and state enterprises play a combined role. In most of the countries of the world, mixed economy exists for example, the United States, the United Kingdom, Germany, Bangladesh, India, etc.

Characteristic of Mixed Economy

In different countries of the world, the characteristics of mixed economy are of different kinds. Usually, the following characteristics of mixed economy are observed:

1. **The Private Co-operative and State Ownership of Resources:** In mixed economy an individual can freely possess and enjoy his/her movable and immovable properties and also can trade those off. Side by side with that, the government runs the institutions that provide the public properties (highway) and services (healthcare).

2. **Private Enterprise:** In mixed economy, most of the economic activities along with production, trading, distribution and consumption, are organized and conducted by private enterprises.
3. **State Enterprise:** In mixed economy, state enterprises are undertaken alongside private enterprises. The vital and heavy industries, national security and institutions that are significantly public-related, are conducted by the state.
4. **Profit:** It is possible to earn profits by conducting maximum economic activities in the private sector.
5. **Freedom of the Consumer:** In this system, the consumer enjoys full freedom regarding the trading and consuming of general products. However, if the government deems it necessary, it can influence the price of the goods and control the production and consumption of any goods as per its necessity, for example, smoking, production of drugs and consumption, etc.

Many people consider this mixed economy as a better economic system since pure capitalism or socialism can be found nowhere in the world.

Islamic Economic System

The economic system which is developed on the belief of fundamental roles of Islam is called Islamic economic system.

Characteristic of Islamic Economic System

In Islamic economic system, it is said that all the resources of the world have to be used for the welfare of human kind. The important characteristics of this system are as follows:

1. **Belief in Islam:** The fundamental rules of Islamic economy are complied and directed according to religion, religious philosophy, religious customs, rules and regulations.
2. **Interest-Free Deposit:** Islamic economic system does not allow interest. Here interest-free deposit system is conducted in banking sectors.

3. **Zakat and Fitra:** Zakat based distribution system has been introduced in this system. For this, Zakat and fitra are collected from the rich in order to distribute among them the poor.

Task: Which economic system is similar to the economic system of Bangladesh? Explain.

Exercise

Descriptive Questions

1. Discuss the origin and development of economics.
2. Define economics. Which of the definitions is more acceptable and why?
3. Discuss the ten principles of economics.

Short Questions

1. What is meant by scarcity and unlimited wants?
2. Illustrate the definition of economics given by Adam Smith.
3. What is meant by the circular flow of income?
4. What is capitalistic economic system?
5. What is mixed economic system?

Multiple-Choice Questions

1. Who is the father of economics?

   a. David Ricardo b. Aristotle

   c. Adam Smith d. L. Robins

2. Market is a good medium to organize economic activities. Because, there

   a. one can bargain.

   b. one can buy consumer products at a cheap price.

   c. goods can be produced according to the demand.

Which one of the following is correct?

a. i and ii
b. i and iii
c. ii and iii
d. i, ii and iii

Read the following passage and answer question numbers 3 and 4

Nabil went to the market to buy sugar and found that the price of sugar is too high. A buyer standing beside him told him that sugar is being sold at the governmental selling centre at a reasonable price just across the street.

3. Which economic system is prevailing in Nabil's country?

a. islamic
b. mixed
c. capitalistic
d. socialistic

4. In the economic system of Nabil's country,

a. there grows inequality of income.
b. interest-free loan is exchanged.
c. stability of price is persistent.
d. there is no freedom of private enterprise.

Creative Questions

1. Telephone conversation of Rumi and her friend who is living abroad-
Rumi: The cost of rice is increasing every month.
Sumi: My monthly expenditure is always the same.
Rumi: How is it possible in your country?
Sumi: The price of the goods in this country is not raised just if someone wishes.

a. What is the productive sector according to the physiocrats?

b. What is meant by scarcity?

c. Which economic system is prevalent in Sumi's country? Explain it.

d. Analyse the difference between the economic system of Sumi's country and the mixed economic system.

2. Asad has been living in country 'A' for a long time. Recently he came to visit his own country and he told his younger brother about the experiences of his life abroad. The per capita income of the people of that country is very high. The owner of the institution that he works for did not need permission from the government before establishing his factory. And also, he can consume any product that he likes.

a. Illustrate the definition of economics given by Adam Smith.

b. Describe the importance of incentive in economics.

c. Explain the real face of the existing economic system of the country 'A'.

d. Analyse the difference between the economic system of the country 'A' and that of Bangladesh.

Chapter two
The Important Ideas of Economics

It is important to know some significant facts about economics to acquire a thorough idea of economics. The definition of resources and products and their classification, opportunity cost and choice, income, savings, investment, economic and non-economic activities, and above all, the activities of the people of Bangladesh have been discussed in this chapter. Before entering into the main discussion of economics, these concepts will be helpful to understand economics.

After studying this chapter, we will be able to

- illustrate the concept of economic resources.
- compare natural resources, human resources and produced goods.
- notify different economic resources of Bangladesh.
- describe what a product is.
- differentiate between freely accessible goods and economic goods.
- compare permanent and temporary consumable products.
- differentiate between intermediate and capital products.
- illustrate the concepts of opportunity cost and choice.
- determine the relation between income, savings and investment.
- prepare a sector-wise list of different economic activities of Bangladesh.

2.1 Economic Resources

We all are more or less acquainted with the term, 'resource'. The word resource comes in our daily conversations in many different ways. For example, Mr. Sujan owns a lot of resources. But to an economist, everything is not a resource. In economics, the products or goods which are to be obtained by spending money are considered as resources. Briefly, we also call them economic goods. For example, houses, furniture, television, etc. are visible material resources and doctor's services, teacher's lessons are invisible or non-material resources. To obtain these things, money has to be spent. If any particular thing is referred to be a resource in economics, it has to have four characteristics. These are-

1. **Utility:** Utility means the capability of any goods/products to fulfill the need of people. If any goods is to become a resource, it must have the capability to create utility. People do not buy anything with money that does not have any utility.

2. **Insufficiency:** To become a resource, the quantity and supply of any goods will be limited. For example, the supplies of river water, wind are ample. These are not resources. But if water is bottled in a factory, it becomes a resource. On the other hand, land, gas, instruments are not amply available. That means, these things are resources and these things are the insufficient goods for us.

3. **Transferrable/Exchangeable:** Another characteristic of resource is its transferability. It means the resource can be transferred to or handed over to another person. In other words, if the ownership of goods is transferable or changeable it is called a resource. The talent of the world famous poet Rabindranath Tagore cannot be considered as resource in economic terms. Because, the ownership of his brilliance cannot be handed over or exchanged whereas the ownership of a television is changeable, which makes a TV a resource.

4. **Externality:** Those things that stand for the internal qualities of human beings are not resources in economic terms. Because we cannot feel their

existence externally. For example: the special experience or knowledge of a person about computer or the qualities of someone's character cannot be termed as resources. But in the capitalist market economy, these human qualities can be turned into saleable resources.

Classification of Resources:

Resources are of three kinds from the perspective of their origins. They are-

1. **Natural Resources:** Goods obtained from nature which satisfy people's needs, are known as natural resources. For example, land, forests, mineral resources, rivers, etc.
2. **Human Resources:** Different kinds of abilities and skills of a human are known as human resources. For example, physical capabilities, intelligence, enterprise, organizational capacities are human resources.
3. **Produced Resources:** Resources that are created utilizing natural and human resources are known as produced resources. For example, raw materials, instruments, industries, transport and communication systems, educational institutions and health care centres, etc. are built by humans, so they are produced resources.

Task: Explain logically which of the following are resources in terms of economics:
Wheat, rice, genius of a poet, experience with the computer, and sand of rivers.

Description of the Economic Resources of Bangladesh

Bangladesh is one of the developing countries in the world. The per capita income of an over-populated country like ours is low. The economic resources of a country are very closely related to the development of the country. The description of the economic resources of our country is given below:

A. Agricultural Resources

Bangladesh is an agriculture-based country. Fertile agricultural lands rich in alluvial soil occupy vast areas of this country. The fertility of our lands, favourable weather, rainfall, rivers, etc are supportive of agricultural

production. There is about 90,990 square km of tillable agricultural land in our country. In our agricultural lands, rice, wheat, dal, potato, oil-seed, fruits and other crops and jute, sugarcane, tea, tobacco, silk and other cash crops are produced. Almost 63% of our population is directly or indirectly dependent on agriculture. 16% of our national income comes from the agriculture sector.

B. Mineral Resources

Bangladesh is not rich in mineral resources. The minerals that have been discovered here so far are briefly described below:

1. **Natural Gas:** The main mineral resource of Bangladesh is natural gas. 23 gas fields have been discovered in the country till 2016. There, about 16 trillion cubic foot gas is in reserve in total. Now, gas is being extracted from only 22 gas fields. The producing gas fields are: Bakhorabad, Hobigonj, Kailashtila, Rokidpur, Sylhet, Titas, Belabo (Narshingdi), Meghna, Sangu, Salda river, Jalalabad, Bianibazar, Fenchuganj, Moulovibazar, Feni, Bibiana, and Bangura. This gas is used as raw material to produce chemical fertilizers. Besides, this gas is used as fuel in electricity plants, industries and households.

2. **Limestone:** Limestone is used in producing cement, glass, paper, soap, bleaching powder, etc. There are reserves of limestones in Bhangarhat of Sylhet, Baglibazar, Tekerhat of Sunamgonj, Jamalgonj of Jaipurhat and St. Martin island of Chittagong in Bangladesh.

3. **China clay:** There are reserves of china clay in Bijoypur of Mymensingh and Patnitola of Naoga districts. It is used in making utensils and sanitary products.

4. **Coal:** Coal has been discovered in Sylhet, Rajshahi, Jaipurhat, Faridpur, and Boro Pukuria of Dinajpur in Bangladesh. Recently coal is being extracted from Boro Pukuria of Dinajpur.

5. **Hardrock:** There are stores of hardrock at Moddhopara of Dinajpur and Ranipukur of Rangpur districts. The construction of roads, railways, dams, etc. needs this stone.

6. **Silica Sand**: There are reserves of silica sands in Sylhet, Chittagong, Comilla and Jamalpur. It is used in producing glass, colour, and other chemicals.

7. **Sulphur:** Sulphur is used in producing gunpowder, at match factories, for oil refining and in some other sectors. There is a possibility of getting sulphur at Kutubdia Island in Chittagong.

8. **Mineral Oil:** Mineral oil has been found at Horipur in Sylhet. At the coastal regions of the country, Chittagong Hill Tracts, and in Sylhet, mineral oil is being searched for.

9. **Bronze:** A little quantity of bronze has been found at Ranipukur and Pirgonj of Rangpur district and at the layers of hardrock at Moddhopara of Dinajpur. Bronze is used for making electric goods and wire, coins, etc.

C. Forest Resources

Forestry and forest resources are very important natural resources. To keep the natural and environmental condition well, at least 25% of the total land of any country should be forests. But the forest-land is only 11 % of the total land of Bangladesh which is less, compared to the other countries. For example, there are 33.84% forests in the United States, 67% in Japan, 63% in Burma, and 24% in India. The entire forest region of Bangladesh can be divided into five parts:

1. **The Sundarbans:** This forest is situated at the coastal regions of the districts of Khulna, Satkhira, Bagerhat, and Borguna. The total area of this forest is 6,000 square km. Sundori, Goran, Geoa, Bain and some other valuable trees grow in this forest. The world-famous Royal Bengal Tiger lives in the Sundarbans and so do many different kinds of animals and birds.

2. **Forests of Chittagong and Chittagong Hill Tracts:** About 13,295 square km of the hilly regions in these two districts are occupied by this forest. Segun, Garjan, Gamari, Jarul, Shimul, Champa, Bamboo, Cain, etc. grow in these forests in huge quantities.

3. **Madhupur and Vaoal Forests:** The Madhupur Gar of Mymensingh and Tangail districts, and the Vaoal Gar of Gazipur district together make this forest occupying at least 1064 Square km. Here, Shal, Gajari, Bonjam, Koroi and other trees grow.

4. **Forest in Sylhet:** This forest is situated in Sylhet. Its size is about 1040 square km. Here, Shimul, Bonjam, Bamboo, Cain and many other trees grow.

5. **Forest in Dinajpur and Rangpur:** This forest is situated at north-east of the country, at the Barendravumi of Dinajpur and Rangpur districs. Its size is about 39 square km. Shal, Gojari, etc. grow here.

D. Animal Resources

Everywhere in Bangladesh, different kinds of animals and birds are found. Among the domestic animals, cow, goat, sheep, buffalo, duck, chicken, etc. are the main. Besides, in the Sundarbans and forests of Chittagong Hill Tracts there are tigers, elephants, deer, and some other valuable animals and numerous kinds of birds. Various kinds of fishes are found in our rivers, lakes and marshes (haor) and ponds in the Bay of Bengal. These kinds of resources meet our nutritional demands. They create employment opportunities. They provide raw-materials to leather industries. These resources are helpful to increase export earnings.

E. Energy Resources

The use of the power resources is a must in factories, transport and communication, mechanized cultivation, households etc. There are some sources from which energy resources are obtained. These are coal, mineral oil, natural gas, water, atomic energy, solar energy, and the different types of prevailing fuels.

Although coal has been found at some places in Bangladesh, the extracting has not yet begun. Petroleum has been found at Haripur in Sylhet. The necessary quantity of petroleum is imported from the foreign countries. It has not yet been possible to begin producing atomic and solar energies in the country.

The supply of energy in Bangladesh comes mostly from natural gas, electricity and some other traditional ingredients. We use natural gas in the factories, for household work and for producing electricity. Electricity is produced from water in this country. It is known as hydroelectricity. The only hydroelectricity production plant of the country is situated at Kaptai in the Chittagong Hill Tracts, by the bank of the river Karnafuli. The electricity that is produced by gas, oil and coal, is known as thermal electricity. In the electricity production plants in Bangladesh that are listed below, mineral oil is used as fuel:

1. Goalpara thermal power centre, Khulna
2. Veramara thermal power centre, Kushtia
3. Thakurgaon thermal power centre
4. Saidpur thermal power centre, Nilfamari

The gas-run electricity production centres of this country are:

1. Shiddhirgonj thermal power centre, Narayangonj
2. Ashugonj thermal power centre, Brahmanbaria
3. Ghorashal thermal power centre, Narshingdi
4. Shahjibazar thermal power centre, Sylhet
5. Chittagong thermal power centre

Heat energy is produced in this country from various existing fuels like wood, hay, dung, jute-stalks, husk leaves etc. The present government has set up the scheme of supplying electricity by quick rental service.

It is worth mentioning that, nowadays, air current, solar heat, and organic gas are being used in many countries as materials for producing energy. In the modern world, atomic energy is given much importance, too. It can be expected that in near future, energy production will be attempted from these sources in Bangladesh as well.

F. Water Resources

Water is a basic natural resource which is a must for the survival of animals and plants. Water resource is necessary for the existence and development of the

agriculture, forestry, animal, and energy resources of the country. There are mainly three sources of water resources in Bangladesh. They are: 1. rivers, lakes and marshes, ponds and the sea, 2. rainfall, and 3. underground water. The water from these three sources is important for our agriculture. Cultivation is hampered if the supply of water is either less or more. In the internal water reservoirs and the sea, there are fishes and other aquatic resources. Hydroelectricity is produced from the river current. Centering the numerous rivers and marshes and other water reservoirs, the transport system and trading have been developed in this country. River water and rainfall create positive impact upon the weather and environment of the country. If the development of water resource and its proper usage is ensured, our economic development will surely gain pace. [Source: Bangladesh Economic Review-2016]

2.2 Goods

By goods, we only understand material possessions. However, there are many goods in reality which, though non-material (e.g. light, wind, etc), are goods in terms of economics. Therefore, we call all material and non-material things that have the capability to fulfil human needs are goods. That is, the thing that has utility is goods.

Freely Accessible Goods: The goods that can be obtained without money are known as free-access goods. These goods are freely available in the nature and their supply is unlimited, e.g. light, wind, river water, etc.

Economic Goods: The goods for which people have to pay are known as economic goods. Their supply is limited. e.g. foods, clothes, books, pens, chairs, tables, etc.

Consumer Goods: The utility of goods which is consumed by consumption or use, are called consumer goods, i.e. car, clothes, etc.

Permanently Consumable Goods: The goods that can be consumed over a long period of time are termed as permanently consumable goods. e.g. refrigerator, car, house, land, playground, etc.

Temporarily Consumable Goods: The goods that are to be consumed within a short period of time and sometimes can be consumed for once only are known as temporarily consumable goods, e.g. food, clothes, vegetables, etc.

Intermediate Goods: Some produced goods that are not to be used for direct consumption, rather used as factors of production, are known as intermediate goods. Intermediate goods are consumed at final production. For example, raw materials, milk and sugar used for preparing sweets. These raw materials, milk and sugar are intermediate goods.

Final Goods: The produced goods that are used for direct consumption after their production are known as final goods, i.e. a loaf, a chair, etc.

Capital Goods: The produced goods that are used for the production of other goods, are known as capital goods, e.g. instruments, factories, warehouses, etc. Capital goods are used again and again in production. Capital goods can be used to produce other capital goods.

Commodity: The goods and services that are useable and saleable are known as commodity. All goods are not commodity but all economic goods are commodity. All services are not commodity but all economic services are commodity.

Task: Mention which goods are of which kind- light, rivers water, tables, land, ornaments, instruments, thread.

2.3 Opportunity Cost and Choice

Opportunity Cost: One highly used concept in economics is 'opportunity cost'. Suppose, you are a student. Can you do everything every day? For example, you cannot take the economics examination and watch a cricket match at the field at the same time. If you are choosing to do one task it will obviously not be possible for you to do the other one. Let us take another example, suppose you have 1 acre of land. If rice is cultivated here, 20 quintals of rice can be produced in this land. If you want to cultivate jute on that land, it would be possible to produce 10 quintals of jute there. In this case, the opportunity cost of 20 quintals of rice is 10 quintals of jute. Briefly speaking, to obtain something, another has

to be sacrificed- the sacrificed quantity is the opportunity cost of the other goods.

Choice: Jasim is a farmer. He has a land of three bighas. He can cultivate paddy or wheat in that total land. Besides, he can cultivate paddy in one parts of the land and wheat in other part. If he cultivates only paddy in that land, 120 quintals paddy can be produced. Again, if he cultivates only wheat, 80 quintal wheat can be produced. Now he can decide what he will cultivate in the land. This process of taking decision for the production of crops is choice. In economics, choice is done because of the scarcities of resources. It happens due to the scarcities of resources at personal level as well as in social and public sectors.

Task: Mention two examples regarding opportunity cost from the real life.

2.4 Income, Savings and Investment

Income: For using a factor of production, the money that the factor or its owner gets in a fixed period of time is known as income. The income obtained for labour is known as wage. Income obtained for land is called rent. The owner of the capital is given interest for the use of his capital and this interest is also his income. The income that an entrepreneur earns by meeting all his expenditures is called profit.

Savings: People earn for consumption. Thinking of the future, people do not consume the whole of the earned income of the present. They keep a portion of that income in some economic institution. This portion that is kept is known as savings. Say for example, your father gets a salary of ten thousand taka in one month. He spends nine thousand for your family. Here, your father saves one thousand taka. This concept of savings can be shown by an equation, e.g. $S = Y - C$ (when $Y > C$).

Here, S = savings, Y = income, C = consumption cost.

An individual's savings usually depends upon the quantity of income, responsibility towards the family, farsightedness, social security and the rate of interest.

Investment: People save from their income. When the saved money is utilized for enhancing production, it is known to be investment. For example, there are capital goods of one lakh taka in a factory at a particular time. To increase production, capital goods of another fifty thousand taka are bought. This extra fifty thousand taka is the investment. Through investment, the quantity of production rises and economic development is possible.

Task: Refer to at least four sectors where investment brings about economic development.

2.5 Economic Activities and Non-Economic Activities

For survival, people perform various activities. The main purpose of these activities is to earn a living. For a living, some people work at factories, some at offices, and some on lands. Apart from earning a living, people also perform activities like playing, entertainment or rearing children. And some others get involved in anti-social activities. All of these activities referred above are not to be termed as economic activities. We will divide these activities into two parts, e.g. a) economic activities, b) non-economic activities.

a) Economic Activities

To earn a living, the activities done by people are known as economic activities. By economic activities, people earn money and spend that for survival, e.g. the labourers work at the factories, farmers work on the lands, doctors treat the patients, industrialists run the industries, all these are economic activities. The basic inspiration of people for their economic activities is to fulfil their needs of goods.

b) Non-Economic Activities

The activities which do not generate income and cannot be spent for the survival are known as non-economic activities. These activities, though they fulfil some of the needs of humans, do not play a role in earning money, e.g. the rearing of children by the parents, playing as persuing a hobby etc. are the examples of non-economic activities.

2.6 Economic Activities of Bangladesh

Bangladesh is a developing country of South Asia. The economy of this country depends on 3 sectors– agriculture, industry and service. However, the contribution from the industrial sector and service sector is increasing gradually in national income. And the contribution of agriculture in national income is decreasing gradually.

Agriculture Related Economic Activities: From the employment point of view of Bangladesh, agriculture is known as the largest sector now. 50% of the labour force is employed in this sector. Almost 75% of the total population is directly or indirectly related to agriculture. Cultivating the lands, sowing, irrigation, giving fertilizer, spreading insecticides, harvesting the crops, selling the crops, livestock farming, pisciculture, fishing, poultry, producing various types of vegetables and fruits, and selling them all are included in the agricultural sector.

Economic Activities Other than Agriculture: Apart from agriculture, the other economic activities of the people of this country are- activities at the garments industry, various small industries and cottage industries, large industries and factories, public services and private services, construction of roads and railways, driving vehicles, small and big business, etc. Besides, many people of the country earn their living by making toys, dolls and sweets, tailoring, the works of the blacksmiths, goldsmiths, shoemakers, weavers, woodmen, hawkers etc. Many people earn their living by working as village doctors, Ayurvadic physicians, exorcists, by showing performances of wild animals etc.

The economic activities of a country like Bangladesh are of different kinds. From the very ancient time, the people of this country have been struggling relentlessly to live a happy and well-to-do life by these various types of activities.

Task: Prepare a list of 10 agriculture based economic activities and 10 economic activities beyond agricultural activities of the people of Bangladesh.

Exercise

Descriptive Questions

1. Give a brief description of the economic resources of Bangladesh.
2. Describe the mineral resources of Bangladesh.
3. Illustrate opportunity cost and choice with a diagram.
4. Explain the economic activities of the people of Bangladesh.

Short Questions

1. What are the characteristics of resources?
2. Refer to the classification of resources.
3. What are goods?
4. Refer to the classification of goods.
5. What is opportunity cost?
6. Define income.
7. What is a saving?
8. What is meant by investment?
9. What are economic activities?
10. What is meant by non-economic activities?

Multiple-Choice Questions

1. Which of the following is natural resource?

a. a house b. a post-office

c. the river Padma c. the Bay of Bengal

2. Goodwill is the wealth of business, Because

i. it has the capability to satisfy wants.

ii. its ownership can be changed.

iii. collective ownership can be seen.

Which of the following is correct?

a. i b. i and ii

c. ii and iii d. i, ii and iii

Read the following passage and answer question numbers 3 and 4.

Rahela has a sewing machine. She earns monthly Tk. 10,000/- from it. After maintaining the family and the education costs of her children, she saves the rest of the money. From that savings money, this year she has bought another sewing machine.

3. In economic terms, what can we call Rahela's buying of the new sewing machine?

   a. savings b. capital

   c. investment d. opportunity cost

4. By the last activity of Rahela

   i. family security will be enhanced.

   ii. responsibility towards the children will be increased.

   iii. employment will grow.

Which of the following is correct?

   a. i b. i and ii

   c. ii and iii d. i and iii

Creative Questions

1. Some guests came to Shafiq's house. His mother gave him tk 1000/- and sent him to the market to buy some fish and meat. At the market he found that with that money he can buy 2 kg of fish and 4 kg of meat. Thinking a bit, he bought 1 kg fish and 2 kg meat.

   a. What is income?

   b. What is meant by power resource?

   c. Illustrate the idea of Shafiq's buying fish and meat, presenting it in a diagram.

   d. Analyze the economic significance of Shafiq's choosing the two goods.

2. Hafiz can inspire any person very easily with his words. He has unlimited capacity of organizing people. He has a room at Sadarghat for the storing of goods that come from different parts of the country. From here, his employees supply goods to different parts of the country according to his will.

   a. What are economic goods?

   b. What are natural resources?

   c. What type of economic goods is in Hafiz's room at Sadarghat? Explain.

   d. Are Hafiz's qualities resources? Give reasons for your answer.

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Chapter Three

Utility, Demand, Supply and Equilibrium

In this chapter, utility, consumption, total utility, and marginal utility, law of diminishing marginal utility, demand, the market demand line, and selection of the equilibrium price have been discussed.

After studying this chapter, we will be able to

- illustrate the concept of utility.
- determine the relation between utility, consumption and consumers.
- prove that the total utility is the sum of marginal utilities.
- illustrate the law of diminishing marginal utility with a picture.
- elaborate the relation between price and the quantity of demand.
- elaborate the relation between price and the quantity of supply.
- ascertain the equilibrium price and quantity.

3.1 Utility, Consumption and Consumers

Utility: A person needs many goods and materials for their survival. Many other things are necessary along with food and clothes. Without these, we cannot live a normal life. For example, food, clothes, books, services of the doctor, etc. satisfy the demands of human beings. Therefore, in economics, the capability of any goods that satisfies. People's need is termed as utility. Utility is a psychological idea.

Consumption: Every day we use rice, fish, pen, clock, cloths or we consume these things. Here, consumption does not, however, only stand for finishing these off. Because, we cannot actually destroy or finish anything. By using the goods we can just get their utility. We have to keep in mind that if the utility of any goods is destroyed in any way other than satisfying a need, it will not be considered as consumption. That is, in economics, to finish the utility of any goods for the purpose of satisfying a want or need, is known as consumption.

Consumer: The person who consumes is called a consumer. That is, other than the freely accessible goods, the person who is prepared to spend money to consume any other goods is known as the consumer.

Task: Mention two differences between consumption and the consumer.

3.2 Total Utility and Marginal Utility

Total Utility

Going to the market, you want to buy more than one mango to eat. The money that you spend to buy the first mango is not the money that you spend to buy the second or the third or fourth mango. Because, after consuming the first mango, your wish to eat mango is satisfied to quite an extent. Your wish to eat a mango for the second time is lessened. In the stage of the third or fourth mango, it will be even lesser. It might even be possible that you will not buy any more mangoes. Because, you do not have the wish to eat mangoes any longer, in other words, the utility of extra mangoes to you is zero. To buy mangoes, you have to spend money. Let us assume that you buy the first mango for 5 tk, the second for

4 tk, the third for 3 tk and the fourth for 2 tk. Thus, you buy 4 mangoes for (5+4+3+2)=tk 14. If money is taken as the measure of utility, the total utility of four mangoes is 14. Therefore, the sum of the satisfaction from different units of goods derived at a particular time is known as the total utility. Since the extra mangoes gradually give lesser satisfaction, therefore, with the increment of consumption, the total utility increases at a decreasing rate.

Marginal Utility

Suppose, you have bought 3 mangoes. Now you buy another mango. This fourth extra mango is the marginal mango. From this marginal mango, the satisfaction or the utility you get is the marginal utility. If you have spent tk 2 to buy this mango, then the marginal utility will be tk 2. That is, the utility one can get by consuming one extra unit of goods or service is marginal utility.

Presentation of Total Utility and Marginal Utility by a List

Unit of Goods (mangoes)	Total Utility (in taka)	Marginal Utility (in taka)
1st	5	5.00
2nd	5 + 4 = 9	4.00
3rd	9 + 3 = 12	3.00
4th	12 + 2 = 14	2.00
5th	14 + 1 = 15	1.00
6th	15 + 0 = 15	0.00
7th	15 - 1 = 14	-1.00

It is seen in the list above that when the price of the 1st mango is tk 5, the marginal utility is tk 5. Buying the 2nd mango makes the total cost tk 9. The total utility derived from 2 mangoes is tk 9. And the marginal utility derived from the 2nd mango is 4. This way, utility derived from 4 mangoes is 14. The marginal utility of the 4th mango is 2. And thus the marginal utility, chronologically is, 5, 4, 3, 2, 1, 0, and -1 tk. And you will not buy the 6th mango since it has no utility to you. Your total utility will decrease at the time of buying 7th mango as it has negative marginal utility.

Task: Note down four differences between total utility and marginal utility.

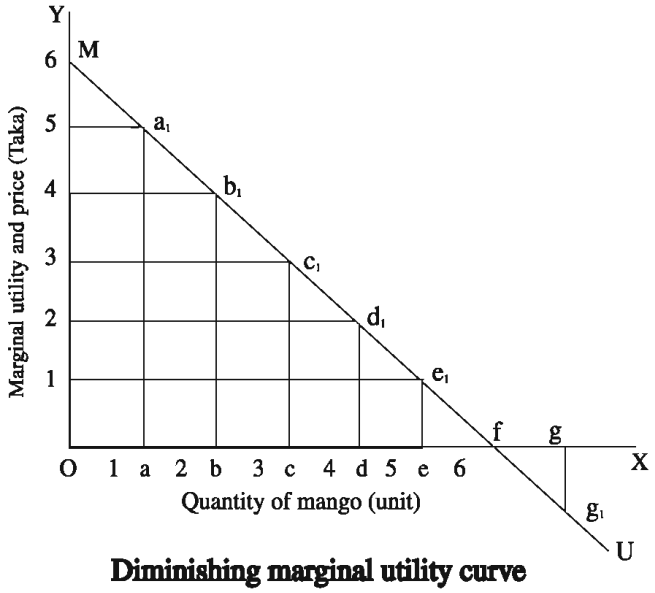
3.3 The Diminishing Law of Marginal Utility

From the example above, it is observed that if you eat the same quantity of mangoes repeatedly, your interest towards mangoes diminishes, and so does the utility. Since the utility falls, you want to pay less for one extra unit of mango. The marginal utility of the 6th mango is O and the marginal utility of the 7th mango is negative. That means to consume the same product over and over again causes the marginal utility to diminish accordingly. This tendency of the marginal utility to fall due to the increase in the unit of consumption is known as the diminishing law of marginal utility. The diminishing law of marginal utility maintains some conditions. These are: a) the consumer should have general capacity of judgement; b) the consumer can measure the utility of the goods in terms of money if they wish to; c) the price of the goods is to be equal to the marginal utility; d) there will be no change in the income, taste and liking of the consumer while consuming the goods; e) a particular time is considerable.

Illustration of the Law by a Diagram

It is possible to show the diminishing law of marginal utility by a diagram. In the picture below, the horizontal axis will show the quantity of mangoes and the vertical axis will show the marginal utility and the price.

Diagram:



Diminishing marginal utility curve

In the diagram, the amount of mangoes in the horizontal axis and the marginal utility and price in the vertical axis are indicated.

In the picture, you get aa1 quantity of utility or marginal utility from the 1st mango and you pay tk 5 for the 1st mango. With the increase of consumption, from the 2nd, 3rd, 4th and 5th mango, you gain bb1, cc1, dd1 and ee1 quantities of marginal utility respectively. That means, with the increasing consumption, you would agree to pay tk 4 for the 2nd mango, tk 3 for the 3rd, tk 2 for the 4th, tk 1 for the 5th. The marginal utility of the 6th mango is zero and the marginal utility of the 7th is negative, i.e. tk -1.00. The point f on the horizontal axis shows the zero marginal utility. And the marginal utility of the 7th mango is negative (tk -1) which is shown by gg1. Here, $ee_1<dd_1<cc_1<bb_1<aa_1$. From this we can understand that with the increasing consumption of mangoes the utility of the extra units gradually decreases for you. Now we can get the MU (Marginal Utility) line by connecting the points, a1, b1, c1, d1, e1, f1, and g1. The line is sloping on the right hand side. Here we can observe that with the increase in the quantity of consumption, the marginal utility is gradually decreasing. And that is why the marginal utility line is sloping downwards.

3.4 Demand

We, in our daily life, want to get many things. A car, a beautiful house, good foods, etc. But all our wants are not demands. Three conditions are to be fulfilled to make a demand in economics, e.g. 1. the wish to get any goods 2. Necessary monetary capacity to buy and 3. the wish to spend money to get that goods. Therefore, if a buyer has the wish to buy some goods, the capacity to buy it and the wish to buy it at fixed price, then it is called a demand in economics.

The Law of Demand: Your mother asked your father to bring a hilsha fish from the market. Returning from the market, your father was annoyed and told her that the price of the hilsha fish was very high for him and it was not possible to buy it. That means, due to the rise in price, there is no demand for the hilsha fish to your father. Another day, your father returns home with two hilsha fish in his hand and said with a smiling face that today the price of the hilsha fish is low and that is why he bought two hilshas. So, there is a close relation between the demand and the price.

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Therefore, by the law of demand, we understand, "all else being constant or unchanged, at a particular time, if the price of the goods falls the quantity of demand rises and if the price rises, the quantity of demand falls." [price (↑) Demand (↓) again price (↓) Demand (↑)] . The other factors being constant means here, the taste of the buyer, habit, likings will not be changed and the income of the buyer and the price of the alternative goods will also remain unchanged, etc.

Drawing the Demand Curve from the Demand Schedule

We have seen in the law of demand that there is an inverse or negative relationship between price and demand. That means, when the price of the goods increases, quantity demanded falls, on the other hand, when the price falls, demand rises. This concept, when presented by a schedule, is called the demand schedule. Therefore, it can be said that the schedule through which the different quantities of demands for goods bought at different prices at a particular time is called the demand schedule or demand list.

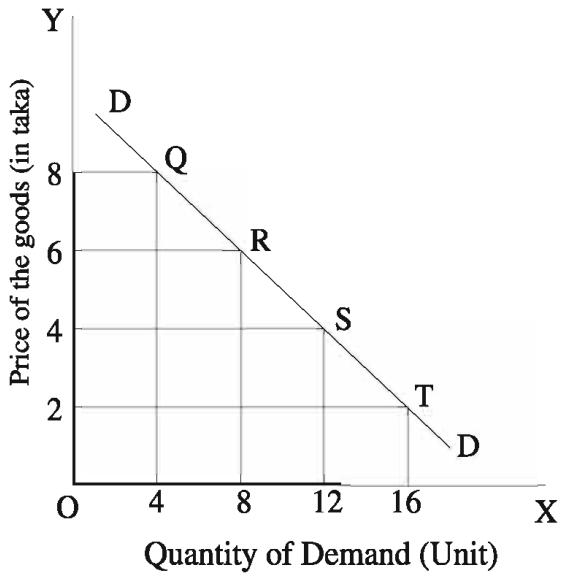
Demand Schedule or Demand List

Price of each unit of goods (in taka)	Quantity of demand (unit)
8.00	4
6.00	8
4.00	12
2.00	16

In the schedule we can see that, when the price of one unit of goods is tk 8, a consumer buys 4 units of the goods. When the price falls to tk 6, tk 4 and tk 2, the demand rises to 8 units, 12 units and 16 units respectively. The inverse relation between price and demand is shown in the demand schedule.

From the demand schedule above, we can draw the demand curve.

Demand Curve



In the diagram above, the horizontal axis or the OX axis shows the quantity of demand and the vertical axis or OY axis shows the price of the goods. When the price of the goods is tk 8 the quantity of demand is 4 units. If two perpendiculars are drawn using the price 8 tk and the quantity 4 units, they intersect at the point Q. Likewise, 8 units at tk 6, 12 units at tk 4 and 16 units at tk 2 is shown at the points R, S and T. Now, if we join the points Q, R, S, and T, we will get the DD line. This DD line is the demand curve. The points on the DD line are indicating the different quantities of demand at different prices of the goods.

This way we can draw the demand curve from the demand schedule according to the demand law. It is worth mentioning that we have drawn here the demand curve of regular goods.

Task: Mention three differences between the demand schedule and the demand curve.

3.5 Drawing the Market Demand Curve

A personal demand curve can be drawn from a person's demand schedule. Similarly, it is also possible to draw a market demand curve. The sum total of the personal or different demands of all the consumers at a particular price in the market is known to be the market demand. For the convenience of our understanding, we will presume that the number of the consumers at the market

is two. A market demand curve is drawn below from the personal demand schedules of the two consumers.

The Market Demand Schedule

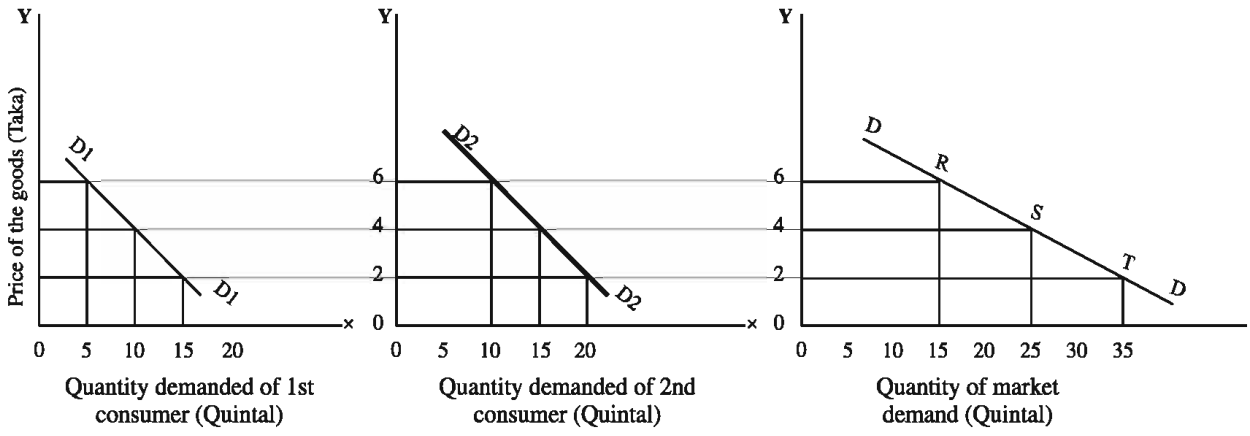
Price of the good (tk)	Demand of the 1st consumer (Q_1) Unit of the goods (quintal)	Demand of the 2nd consumer (Q_2) Unit of the goods (quintal)	Maket demand (Q) ($Q = Q_1 + Q_2$) Unit of the goods (quintal)
6.00	5	10	15
4.00	10	15	25
2.00	15	20	35

The schedule above shows the demands of the 1st and the 2nd consumer at different prices of goods. Now it will be shown how the market demand schedule is prepared from the individual demand schedule of these two consumers.

The demand curve that shows the quantities of any goods that different persons are prepared to buy at different prices is known as the market demand curve.

The market demand curve can be drawn by summing up the demand curves of the 1st and the 2nd consumers side by side.

Diagram:



Individual demand curve for 1st and 2nd consumer and market demand curve.

In the diagrams above, the personal demand curves of the 1st and the 2nd consumers are D1D1 and D2D2 respectively. When the price of the goods is tk 6, the quantities of demand of the 1st and the 2nd consumers are 5 quintals and 10 quintals and the market demand, therefore, will be (5 quintals + 10 quintals) = 15 quintals, which is shown on the market demand curve by the point R. The price falling to tk 4 and tk 2 has resulted in the personal demands of the 1st and the 2nd consumer being (10 quintals + 15 quintals) = 25 quintals and (15 quintals + 20 quintals) = 35 quintals respectively, which has been shown in the market demand curve by the points Sand T. Now let us join the points R, Sand T to draw the DD demand curve. This is known as the market demand curve.

3.6 Supply

When we go to the market, we will find that the retailers have displayed in their shops their various kinds of goods for selling. But we do not name this as supply. In economics, the quantity of a kind of goods that a producer is willing and capable to sell at a specified time and at a specific price is known as supply. It may be mentioned here that one kind of goods, a specified time and a specific price are a matter of important consideration here. Therefore, the different quantities of a product that a producer is willing to sell at different prices are called supply in economics.

The Law of Supply

We buy and sell goods every now and then at the market. When will a producer/seller be interested to sell their product? Definitely when the price of the product is high at the market, only then the producer will be willing to sell the product. Suppose, when the price of potatoes is tk 15 per kg, the seller will sell 2 quintals of potatoes. If the price rises to tk 20 the producer will be willing to supply more potatoes. Let us think, the supply then will be 3o quintals. That is, with the rise of the price of the goods the supply of the goods also increases and with the fall of the price the supply decreases. Therefore, the relationship of price and supply is direct or positive. As the price changes, the supply also changes. That means, all else being constant, (e.g. factors like price and technology and normal time are to be considered), if the price raises, the corresponding quantity of supply rises and as price falls, the corresponding quantity of supply falls.

Drawing the Supply Curve from the Supply Schedule

We have seen above the price of the goods rises, the quantity of supply increases and when the price falls, the quantity of supply also falls. This direct change of supply due to the change of price can be shown in a supply schedule.

The price of the goods is shown mathematically on one side of the supply schedule and on the other, the supply.

The Supply Schedule

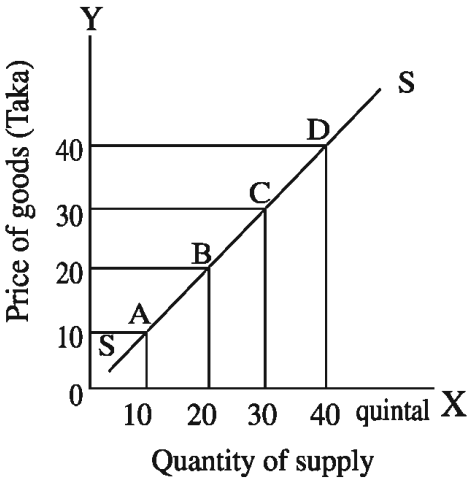
Price of each unit of the product (in taka)	Quantity of Supply (quintal)
10.00	10
20.00	20
30.00	30
40.00	40

It is seen in the schedule that the supply of some goods is 10 quintals when the price of that good is tk 10 per quintal. When the price rises to tk 20, tk 30 and tk 40, the quantity of supply becomes 20 quintals, 30 quintals, and 40 quintals respectively. Thus the law of supply is reflected in the supply schedule.

The Supply Curve

The quantity of supply increases if the price of a product rises, and the quantity of supply falls if the price falls. When this direct change of supply, corresponding to the change of the price is shown by a curve or diagram, it is called the supply curve.

How the supply curve is drawn from the supply schedule is shown below.



In the diagram, the supply of the goods is shown in the horizontal axis or the OX axis and the OY axis or the vertical axis indicates the price of the good. When the price of the goods is tk 10, the quantity of supply of the goods is then 10 quintal. They connect at the point A. Thus, when the prices of the goods are tk 20, tk 30 and tk 40, the supplies of the goods are then 20 quintals, 30 quintals and 40 quintals respectively. They are connected at the points B, C and D. Now if we connect the points A, B, C and D, we will get the SS line. This is the supply curve.

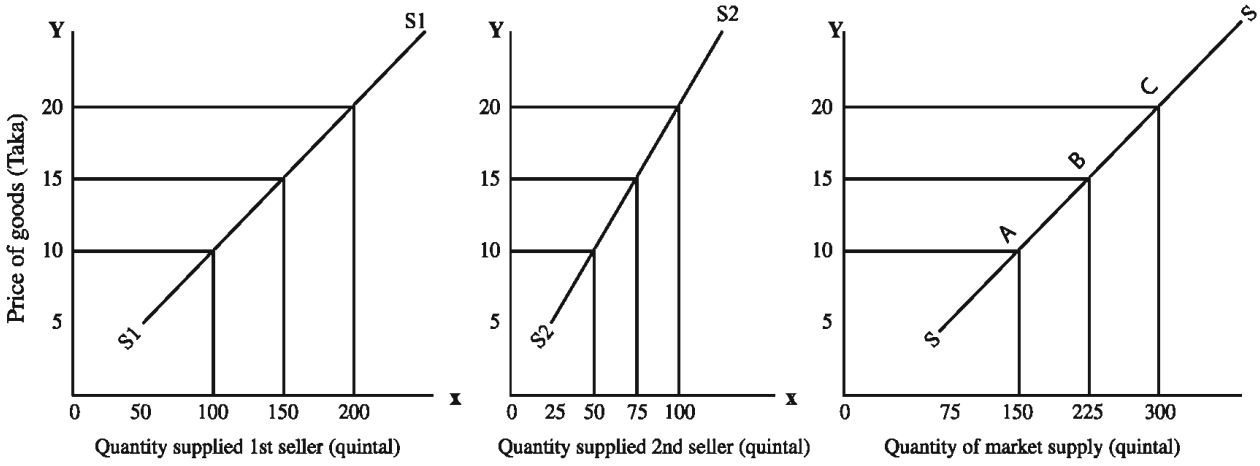
3.7 Drawing the Market Supply Curve

At a specified time, the different quantities of goods that a salesman supplies at different prices is known as the personal or individual supply. On the other hand, the quantity of goods that all the salesmen supply at a specific time at different prices is known to be the market supply. Summing up the individual supply schedules of all the salesmen, the market supply schedule can be prepared. Here follows a brief and simplified market supply schedule–

Market Supply Schedule

Price of the Goods (taka)	Supply of the 1st producer (S_1) Unit of goods (quintal)	Supply of the 2nd producer (S_2) Unit of goods (quintal)	Market supply $S=S_1+S_2$ Unit of goods (quintal)
10.00	100	50	150
15.00	150	75	225
20.00	200	100	300

In the table above, the supply of the 1st and the 2nd salesmen is shown. How the market supply curve with the supplied goods of the two salesmen can be drawn is shown below.



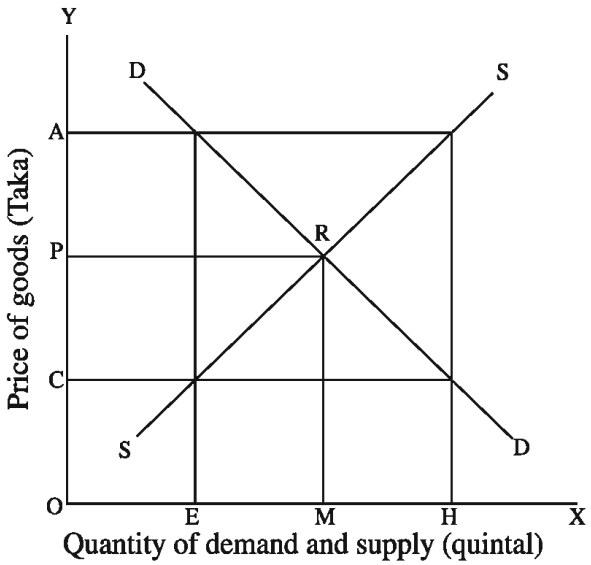
Individual & market supply for 1st & 2nd sellers

In the diagrams above, S1S1 and S2S2 are the individual supply curves of the 1st and the 2nd salespersons. When the price of the goods is tk 10 the quantities of supply of the 1st and the 2nd salespersons are 100 quintals and 50 quintals respectively, and the market supply will, therefore, be (100+50)=150 quintals. This is shown by the point A in the diagram. When the price rises to tk 15, the quantities of the individual supplies of the 1st and the 2nd salespersons will be 150 quintals and 75 quintals and the market supply will be (150+75)=225 quintals. This is shown by the point B. When the price rises even more to tk 20, the quantities supplied by the 1st and the 2nd salespersons will be 200 and 100 quintals. The quantity of the total supply will be (200+100)=300 quintals, which is indicated by the point C in the diagram. Now we can draw the line SS by joining the points A, B and C. This is known as the market supply curve.

Task: Refer to 3 differences between supply schedule and supply curve.

3.8 Determining Equilibrium Price

An ordinary picture of the market is the bargain between the buyer and the seller for the price of the goods. The buyer tries to buy the goods at the lowest possible price. On the other hand, the seller tries to sell them at the highest possible price. Through this bargain between the buyer and the seller, ultimately the goods are bought or sold at a price where the demand and the supply are the same. The price at which the demand and the supply are the same is known to be the equilibrium price. At the equilibrium price the quantity of the goods that is bought or sold is known as the equilibrium quantity.



Deriving the Equilibrium Price

In the diagram above, on the horizontal axis, the quantities of the demand and the supply are shown and on the vertical axis, the price of the goods is indicated. In the diagram, the demand curve DD and the supply curve SS are drawn.

Suppose, at OA price, the quantity of the demand and the supply are respectively OE and OH. In this price, the quantity of supply is greater than the quantity of demand. When the supply is greater than the demand, a downward pressure is created on the price. Thus, the price will fall from OA to OP. Here the demand and the supply will be the same. And if the price is OC, then the quantity of supply is OE and the quantity of demand is OH. That is, here the demand is greater than the supply and therefore, the price of the goods will definitely rise and the price will get stable at OP. There also, the demand and the supply are the same. Thus it can be seen that when the price is OP, only then the total quantity of the demand and the supply is the same that is OM. That means, at price OP, the demand and the supply are the same and there is no tendency of any rise or fall in the price. Therefore, OP is the equilibrium price and the equilibrium quantity is OM. The lines DD and SS intersect at the point R. This intersecting point R indicates the equilibrium price and the equilibrium quantity.

Task: Present the diagram of determining the Equilibrium price on poster paper in the class.

Exercise

Short Questions

1. What is utility?
2. What is meant by consumption and consumer?
3. What is meant by total utility and marginal utility?
4. Define demand. What is the law of demand?
5. What is the market demand curve?
6. What is the law of supply?

Descriptive Questions

1. Explain the diminishing law of marginal utility.
2. Describe the process of drawing a demand curve from an imaginary demand schedule.
3. Draw a market demand curve from imaginary demand schedule of two consumers.
4. Draw supply curve from an imaginary supply schedule.
5. Explain the concept of determining the equilibrium price by a diagram.

Multiple-Choice Questions

1. How many conditions are there for demand in economics?

   a. 2 b. 3

   c. 4 d. 5

2. Which of the conditions below is compulsory for market equilibrium?

   a. the point where demand = supply b. the point where demand > supply

   c. the point where supply > demand d. the point where supply = demand

Read the following passage and answer question numbers 3 and 4.

Tahsin bought a guava and ate it at the school. Here, the utility schedule of his guava is given below–

Unit of the goods	Total utility (in taka)	Marginal utility (in taka)
1	5	5
2	9	4
3	12	

3. What is the marginal utility of Tahsin's 3rd guava?

a. tk 5 b. tk 4

c. tk 3 d. tk 2

4. In the behaviour of Tahsin

i. an ordinary situation is expressed.

ii. the attraction towards the guava is unchanged.

iii. the marginal utility of the guava has gradually decreased.

Which of the following is correct?

a. i b. ii and iii

c. i and iii d. i, ii and iii

Creative Questions

1. The demand schedule of the goods 'X' of person 'A' and person 'B' is given here–

Price per unit of the goods (in taka)	The quantity of demand of person 'A' (quintal)	The quantity of demand of person 'B' (quintal)
Tk 20	5	7
Tk 15	10	11
Tk 10	15	15

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a. What is utility?

b. Elaborate the relation between total utility and marginal utility.

c. Draw the demand curve of person 'A' from the demand schedule of the goods 'X', and explain it.

d. Draw the market demand curve of the goods 'X' and compare with it the demand curve of person 'A'.

2. Going to market Sujan finds that the price of potatoes is tk 25 per kg. He wants to buy 120 kg of potatoes, but Karim wants to sell 160 kg of potatoes at the same price. When the price of potatoes falls to tk 20 the next day, Sujan buys 140 kg of potatoes and Karim sells 140 kg of potatoes.

a. What is demand?

b. Explain the law of demand.

c. Draw the supply curve for the potatoes of Karim and explain it.

d. Do you think that Sujan and Karim could reach at the equilibrium price at the market for potatoes? Give reasons for your answer.

Chapter Four
Production & Organisation

Sharbat is one kind of produced goods. Water, lemon, sugar, etc are necessary to prepare sharbat. Utilizing ingredients, it is possible to produce goods or to create utility or satisfaction. And this is done by an organisation. For production, ingredients like water, sugar, lemon, etc. are needed. There has to be a planning of how the production is to be done. Different people perform different activities during the production; these activities are to be distributed according to the qualifications and skills. Finally the produced goods have to be taken to the market. An organisation performs these types of work. If the organisation is not skilled, it is not possible to enhance production.

After studying this chapter, we will be able to

- illustrate the idea of production.
- explain the relation between production and producer.
- describe the factors of production.
- discuss an organisation and its growth.
- explain the relation between average and marginal production.
- illustrate the idea of production cost.
- identify visible cost and invisible cost.
- determine the difference between personal and social costs.
- be interested in productive work and enterprise.
- present the law of diminishing marginal product with a schedule and graph.

4.1 Production and Producer

Production basically means creating utility. The produced goods have to have an exchange cost. On the other hand, if utility is not produced, it is not called production. To create a new product or utility using the factors or the primary products is known to be production. For example, bread is made using flour, salt, water, roller, etc. Bread is produced goods. We satisfy our hunger eating bread. That is, utitlity has been created by making bread. We can get bread for money or in exchange for any other product. That is, there is an exchange cost for the new product, bread. If breads are produced for business purpose, these bread sometimes need to be taken to the market. The organization supervises all the activities from the collection of ingredients to taking the produced goods to the market place. For example, the organization supervises what materials are needed, where they will be brought from, who will bring them, who will prepare the mould by mixing the salt, flour, water, who will roll the breads, who will bake the breads, who will take these to the market, at what price they will be sold etc. If all these things are not supervised by the organiser skillfully, the highest quantity of production cannot be ensured from a fixed quantity of factors or ingredients. One individual can be the organiser and the producer. For example a small/medium farmer who grows crops in his own fields is a producer and an organiser at the same time. But the owner of a factory who works in his own factory as a manager and runs his factory by the labourers is an organiser not a producer. Again the owner of a factory who runs his factory appointing a manager and produces goods by the labourers is neither an organiser nor a producer. He is only an owner. The owner, who takes part in productive activities and supervises other producers, is an owner, producer and organiser at the same time.

The process of production or creating utility is shown in five stages, e.g.

1. **Transformative Production:** Producing new goods by transformation is known to be transformative production e.g. transforming wood conveniently into bed, chair, table, etc. These products therefore, are transformative production.

2. **Regional Production:** Utility increases when some goods are moved from one place to another. For example, wood from the forest is usually used as fuel by the people who live near the forest. If these wood is brought to the city, people can make attractive furniture from this wood and thus its utility increases. Furthermore, flower is not appreciated in the forest. On the other hand, if that plant with flowers is planted on the compound of a house in the city, it is far more appreciated, that is, its utility increases.

3. **Time-Based Production:** The production and utility of many goods increase in the course of time. These are known as time-based production, e.g. the outturn of paddy is more at the monsoon in Poush and Magh. On the other hand, at this time the price of paddy is less. Storing the paddy at this time to sell it in the months of Vadra-Aswin will bring higher prices.

4. **Service-Based Production:** The production that people produce by their services is called the service-based production. The teacher makes people educated by giving lessons, the doctor keeps the health of the people well by giving treatment, in other words, they sustain or increase the production capacity.

5. **Ownership-Based Production:** It is possible to ensure superfluous production by changing the ownership of some of the economic goods and services. For example, a farmer can produce by buying an unused land and tilling it or can increase the production through better/improved cultivation by buying a used land.

You have got the idea of creating utility through production. Now you will know about the people involved in production. Ramzan Ali is a farmer. He has 3 bighas of agricultural land. In this land, Ramzan produces paddy in one monsoon, and wheat in the other. In-between the production of paddy and wheat, he grows vegetables. As the factors of production for all these crops, he uses seeds, fertilizers, water, insecticides, machines for harvesting. His family members help him in these activities.

Task: (1) Classify the changed situation given below according to the different types of production. (a) fish-pond, (b) work of the soldier, (c) affection of the parents, (d) giving the property of the father to the children, (e) making instruments from iron, (f) flour from wheat (g) sugar from the sugarcane, (h) rice from paddy, cakes from rice, (i) transporting the bananas, fruits, vegetables from the village to the city, (j) selling the potatoes of the month Agrahayan in the month of Ashar.

Task: (2) Refer if Ramzan Ali is to be termed as a producer or an organizer.

4.2 Factors of Production

Suppose in your area, wheat, potatoes, bananas, rice and some other agricultural goods are produced alongside some industrial goods like cloths, biscuits, plastic, etc. To produce these agricultural and industrial goods, many factors are necessary. For the farmer, to produce rice, he needs land, seeds, fertilizers, plow, irrigation, labour, etc. On the other hand, to produce industrial goods, factory, building, cloth, threads, machines, electricity, gas, flour, sugar, oil and labour are necessary. To produce these goods, natural resources like soil, the fertility of soil, light and air, environment, mineral resources, sunlight, water, and many other things are necessary. The goods that are mentioned here are factors of production. That means the goods and services that are necessary for any kind of production, are called factors of production.

There are basically four types of factors in production. For example, 1. Land, 2. Labour, 3. Capital, 4. Organisation.

1. **Land:** The natural resources that help production, are called land. For example, land, soil and the richness of the soil, minerals, forests and water resources, the sun-ray, rainfall, weather, and all the other types of natural resources are included in land.
2. **Labour:** Every kind of physical and mental labour of humans that is used for the purpose of production is called labour. The physical labour of a farmer, a fisherman, a blacksmith, a potter and the labourer of the industry of ready-made clothes is labour. The physical and intellectual labour of the officer and staff is also called labour. Similarly, the teachings of a teacher, services of a doctor and the counselling of a lawyer are all labour.

3. **Capital:** Capital is the factor of production that is produced by human beings. They use this produced factor for further production and not for consumption, e.g. instruments, raw materials, factories, office furniture and so on.

4. **Organisation:** The organisation is known as a synthesizer. To direct the act of production by bringing harmony amongst the other factors of production like land, labour and capital is known as organisation. To adjust and to direct the course of actions is also termed as management. The person who conducts this work is known as the organiser or entrepreneur. Therefore, the varied tasks of an entrepreneur, like planning for producing something, bringing the land, labour, and capital together and combining them and directing the act of production, taking the risk, all are included in organisation.

So, it is a must that in the entire production system, land, labour, capital and organisation, all these four factors participate. Production is not possible with any one of these being absent. However, in the production arena, the importance of all these factors is not equivalent. Depending on the situation, some of the factors are needed more, and some are needed less. Since Bangladesh is an agriculture-based and heavily populated country, land and labour are more important than capital here. On the other hand, in the industrialist countries like Japan, the Unites States and others, capital is more significant than land and labour.

Task: (1) What could be the important factors of production in the perspective of our country?

Name of the country	Important factors used in production
Bangladesh is an agriculture-based country	.....
Japan is an industrialist country	.....

Task: (2) Arrange the factors as per their importance in the production sector.

Sector of production	Factors according to their importance are
Agriculture	.....
Industry	.....

4.3 Organisation and Its Development

Ayesha Begum has built a poultry farm in her house amidst all her household work. Throughout the year, eggs are produced from this farm. One year later, Ayesha went to visit a governmental fisheries project and after that the idea of pisciculture drew her attention. Within one year, from the neat income of selling eggs from her poultry farm, which is twenty thousand taka, she built a pond on the two bighas of land beside her home and started a fisheries project. Some more labourers are recruited in both the farms. Ayesha's income increases from selling eggs from her poultry and after one year from selling the fishes of the pond. Her savings also increase even after meeting the expenditures on the education of her three children and all those of her household. As Ayesha's work grows in volume, her husband, Rahmat Ali leaves his job in the city and comes to join his wife's farm. With both of their enterprises, they manage to acquire some land, poultry and fisheries. They also employ 12 men and women. They train each of the labourers. By turn, Ayesha and Rahmat supervise the labourers and their farms. They also manage to marketize the eggs and fishes in the market place. Seeing their success, many other villagers follow their example and begin to develop poultry farms and fisheries throughout the village and areas in the vicinity. To take the eggs and fishes, the wholesalers from different areas now come regularly to Ayesha's village. Within a number of years, the whole area achieves economic success through agriculture, poultry farming and fishery projects. Poultry stock and fish are now produced in this area for business purpose.

Can we say that Ayesha Begum is an organiser? Have her organising capabilities developed?

It is certain from the above discussion that to conduct and control productive activities for the purpose of business can be called organisation. In the true sense, production and control of business and management are almost impossible without an organisation. In the modern world, different people play different roles in the production activities. The organiser distributes these responsibilities skillfully according to their efficiency. Thus, with the help of the

workers, different jobs in the production and business are done. But while completing the tasks a kind of mutual authority and responsibility is created amongst the workers. This structure of reciprocal authority and responsibility is organisation. Therefore, organisation is the base of business.

It is the duty of the organisational structure to hold together the different parts of the organisation and to prepare the necessary arrangement to achieve the goal. Apart from that, distributing the responsibilities of different activities, developing rules and regulations, etc are included in the structure of organisation. The organisational structure is dependent on the extent of the business, the nature and volume of the produced goods, the character of the industry, the process of production, skills of the labourers and many other things.

The clear picture of the management structure of an institution, which is clearly visible when the posts of the superior and inferior workers are arranged hierarchically discerning the different divisions of the organisational structure of the business, the sub-divisions and the branches, is called the picture of an organisation. The success of the business will grow as much as the management of organisation will be well-arranged and proper. Therefore, organisation is the fundamental and main aspect of business.

Task: Make a list of the organisational tasks.

A good organisation has some particular tendencies or characteristics. They are–

1. **The Purpose and Nature of Business:** The purpose of the business needs to be determined in the first step of organisation. According to the purpose and nature of business, the organisational structure of the business has to be built. It has to be determined which one among these possible purposes is the main and which one is subsidiary, or which one is short-termed and which is long-termed.
2. **Deciding on the Business Activities:** After deciding properly the purpose and nature of the business, all the activities of the business are analysed, e.g. production, buying and selling, arranging for money, employing labourers

and workers, managing labourers and owner relationship, etc. For these, maintaining the finance, advertising and publicizing, storing the goods, management, etc are necessary.

3. **Division of Activities:** After analysing the activities according to the similarities in type and purpose of the activities, they are divided into some groups. The associate activities in one group are again divided into some sub-divisions, for example, the production sector, buying sector, selling sector, financial sector, publicizing sector, etc. Sometimes some businesses are divided regionally also. Some divisions together are considered as regional divisions.

4. **Distributing Responsibilities:** Each worker in the business is entrusted with one particular responsibility. The particular duty of each of the worker in each division and sub-division is set in accordance with his/her experience, capacity and skills and each is given the task in which she/he is expert and skilled.

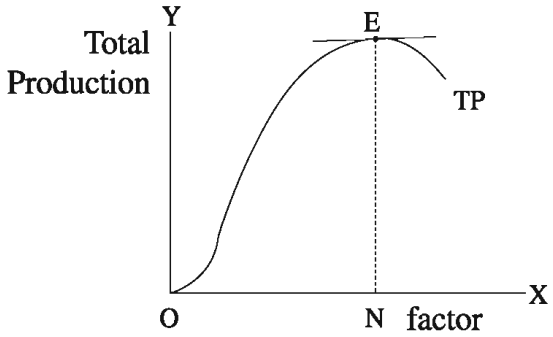
5. **Distributing Authority and Duties:** To assign a duty means to give the proper executive power of fulfilling a responsibility. Each worker is to be given the right to work freely, uninterruptedly and properly. The superior officer hands over one part of their authority or power to workers working under their command. On the other hand, the junior worker is accountable for their work to their superior. An organization is successful when these two opposite streams are persistent.

4.4 Total, Average and Marginal Production

Mr. Komol grows 600 quintals of wheat from his one-bigha land employing 10 labourers. Here, 60 quintals of wheat is grown by each labourer on an average. This 60 quintals of wheat per labourer is called average production. In the next season, 655 quintals of wheat is grown employing 11 labourers. Compared to the last year, the production has increased by 55 quintals. This production of 655-600 = 55 quintals of wheat is known as marginal production. That is,

employing an extra labourer (11th) the production is increased by 55 quintals. The 11th labourer is the marginal labourer. So the production of the marginal labourer is 55 quintals. Therefore, here 600 quintals is the total production, 60 quintals is the average production and 55 quintals is the marginal production. The total, average and marginal production are shown by a diagram.

Total Production: The production that is acquired by employing different factors is known as the total production.



Total production curve

In the diagram above, the line TP (Total Production) shows the total production. Employing only one factor of ON amount, the highest NE amount of production is possible at the point E.

Average Production: We can get the average production when we divide the amount of the total production by the total amount of factors (Labourer). (Here, we have taken labourer as the factor. The average production can also be calculated by other factors of production).

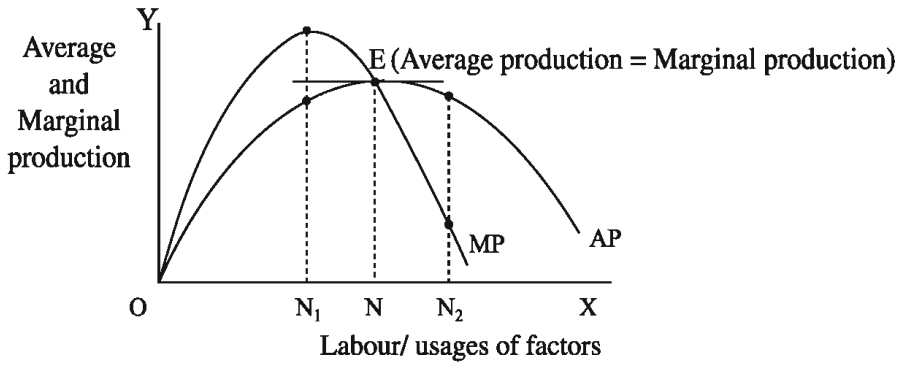
$$\textbf{Average Production} = \frac{\textbf{Total Production}}{\textbf{Total Labour Factor}}$$

Marginal Production: With the change of one unit of a factor of production (i.e. labour or capital), the change that happens in the total production, is known as the marginal production. If labour is used, we shall call it marginal production of labour and if capital is used, it will be called marginal production of capital. That means, using a factor or labour, the change that occurs to the total production, is marginal production. From the schedule that follows, it can be seen that when the labour factor increases from 10 to 20, the total production increases

from 10 to 22 quintals. Here, the marginal production is (22-10)=12 quintals. Thus, if the usage of the factor is increased up to 30, the total production becomes 30 quintals. Here the marginal production is (30-22)=8 quintals.

The Relation between Average and Marginal Production: There is a relation between the average and the marginal production in the production system. In the diagram below, AP is the average production line, and MP is the marginal production line. We can see in the diagram that:

1. When the marginal production is more than the average production, the average production increases. Therefore, the marginal production curve is usually above the average production curve. In the picture, at the ON 1 level of factor usage, marginal production is more than the average production.
2. When marginal production decreases, average production also decreases. In this situation, the average production curve remains above the marginal production curve. In the picture, at the ON 2 level of factor usage, average production is more than marginal production.
3. When the average production is at its highest, the marginal production curve intersects the average production curve at its highest point, i.e. at the highest point of the average production, the average production and the marginal production become equal. In the picture, at ON level of factor usage, the average and the marginal production are equal at the point E.



Relation between average and marginal production

In the picture, the horizontal axis (OX) indicates the labour factor usage, and the vertical axis (OY) indicates the average and marginal production. Before the ON amount of factor usage, at the level of ON 1 factor usage level, MP and AP both rise but the MP rises at an increasing rate. At the ON factor usage level, AP is at its highest point and AP and MP are equal. On the other hand, after employing ON amount of factors, at the ON 2 factor usage level, AP and MP both begin to fall, but AP falls at a higher rate than MP. Therefore, the three types of relationships between average production and marginal production are, in the first stage, marginal production is greater than the average production, then marginal production = average production and later on, marginal production is less than the average production.

4.5 Law of Diminishing Marginal Returns

Keeping the production strategy and all the other factors fixed in the process of production, if only one factor is increased, as a result, the production primarily rises at an increasing rate. At one point, if the factor is used more, production rises at a diminishing rate. This law of increasing production with the usage of factors is known as the Law of Diminishing Marginal Returns.

Usually in the agricultural sector, this law is applicable while attempting to increase production. It is worth mentioning that, in the first stage, production can grow more, compared to the increase in the factors. Suppose, we have two factors which are land and labour. The amount of land is stable. Primarily, when the amount of labour is less, as the labour rises, there remains sufficient land for the marginal labour. Therefore, marginal production increases. That is, production rises at an increasing rate. But, to increase production, if the factors are continuously engaged in a higher amount, the marginal production diminishes. The reason behind this is a engaging extra labour results in a lesser amount of land for each unit of labour. Therefore, production increases at a diminishing rate.

This is known as the law of diminishing marginal returns. This law can be illustrated by the diagram and table below.

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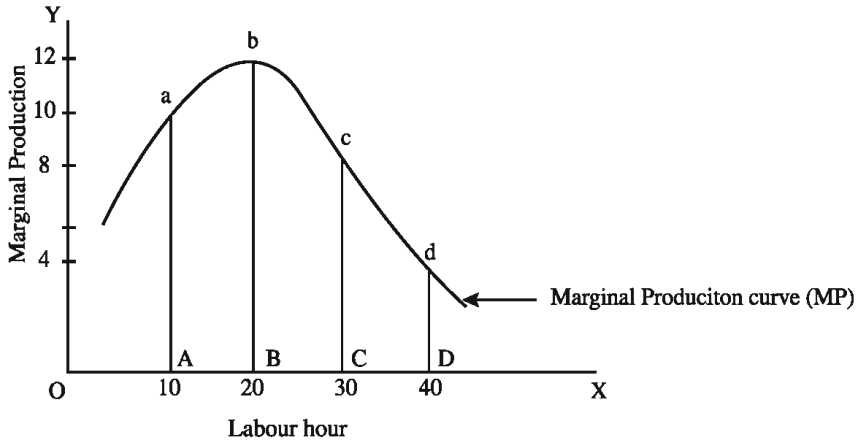
The Law of Diminishing Marginal Returns by table:

Land (Amount of land is stable)	Labour factor (labour hour of the labourer)	Combination of factors	Total production (quintal)	Marginal production (quintal)
1 hector	1	A	10	10
1 hector	2	B	22	12
1 hector	3	C	30	8
1 hector	4	D	34	4

Labour hour = 1, 2, 3, 4. The one hour of labour of a labourer is known as one labour hour.

From the schedule above it can be seen that, if labour is continuously increased on 1 hector of land, although the production primarily increases at an increasing rate, later on it increases at a diminishing rate. As per combination A, spending 1 hour of labour hour on 1 hector of land results in the total and marginal production of 10 quintals. As per B, when the labour hour is doubled, i.e. 2, the total production is 22 quintals and marginal production is (22-10) = 12 quintals. Here, although the labour hour (factor) has been increased from 10 to 20, marginal production is 2 quintals more than the previous one. This production of the primary stage is known as increasing production. Similarly, in the case of combination C, total production increases at the same rate by increasing the labour hour (factor). But the marginal production falls from 12 to 8 quintals. That means, the marginal production is falling at a diminishing rate. Marginal production being less with the increased use of labour hour (factors) is known as the law of diminishing marginal returns.

The law of diminishing marginal returns is illustrated here by a graph:



Law of Diminishing marginal return

In the picture, the horizontal axis (OX) shows the labour hour, and the vertical axis (OY) shows the marginal production. In the picture, the stages of the labour hour are, 1, 2, 3 and 4. In accordance to these, the amounts of marginal production are Aa (10), Bb (12), Cc (8), and Dd (4) quintals.

When the marginal production combinations, i.e. the points a, b, c and d are joined, the marginal production curve (MP) can be drawn. The MP curve appears to be falling on the right-hand side after the highest production. That is, here the law of diminishing marginal returns has been effective.

4.6 Cost of Production

Nuru Mia of Rajshahi has made a lychee garden on 2 acres of land. There are about 100 lychee trees in the garden. This year, for different types of factors, 20 thousand taka has been spent. The production of lychee was also good. Nuru Mia and his son protect the garden from the disturbances of bats and other birds, forgoing their sleep and comforts.

There are two types of expenses for the lychee garden. 1. Costs for the factors, i.e. financial cost of production and 2. Leaving comfort and sleep, i.e. human sufferings. In order to measure the real cost of production, these two types expenses have to be considered. The total of the two types of expenses is called real cost of production.

4.7 Explicit and Implicit Cost

The sum of the visible costs that any production institution spends, for renting or buying materials is known as explicit cost. For example, the wages and allowances of the people working at the production institutions or farms, expenditures for buying raw materials and intermediate goods, different kinds of fixed costs, e.g. house rent, interest of the capital, etc.

Implicit costs stand for the value of the entrepreneur's own labour and other costs, costs for self-employed resources, e.g. the business institution at one's own home, establishing factory, building an office, etc. These costs are not included in the accounts book of the farm. For example, in a self-owned farm,

the person counts the profit as the remuneration of his services rather than counting a separate salary. In this case any type of allowance of the owner is treated as the implicit cost of the farm.

4.8 Personal and Social Cost

We have got above the idea of financial cost production, real cost production and explicit and implicit cost. Now we will learn personal and social cost.

Any farm or production institution spends financial cost and other explicit cost directly in order to purchase different kinds of wealths or materials. The total amount of financial cost and explicit cost is called personal cost. In brief, the total of explicit and implicit cost of a person that is engaged in production activities is personal cost. In order to produce or consume, different people in the society face loss for the process of production or consumption. The total amount of money that is needed to compensate these loss is social cost.

For example, the city dwellers use cars. The smokes of the cars hamper the inhabitants of city physically. For this reason the society has to spend money for health and treatment. The amount of money that is spent for health and treatment is called social cost. Personal cost is reflected in social cost but social cost may not be reflected in personal cost.

Though social cost is embedded in personal cost, generally it is not included in personal cost.

Task: Why is it important to know the idea of explicit and implicit cost of a production institution? Discuss it in groups and present it in the class.

Exercise

Short Questions

1. What is meant by production and factors?
2. Name some of the factors in agricultural production.
3. Give an idea of the organiser.
4. Why does the marginal production diminish?
5. What is the main idea of the law of diminishing marginal returns?
6. Give an idea of financial and real cost.
7. What are explicit and implicit costs? Explain the idea with examples.

Descriptive Questions

1. Explain five processes of creating utility in production.
2. Illustrate the factors of production.
3. Illustrate with examples how an organisation can be developed.
4. Explain the characteristics of a good organisation.
5. Explain the relationship between total, average and marginal production.
6. Illustrate the law of diminishing marginal returns.

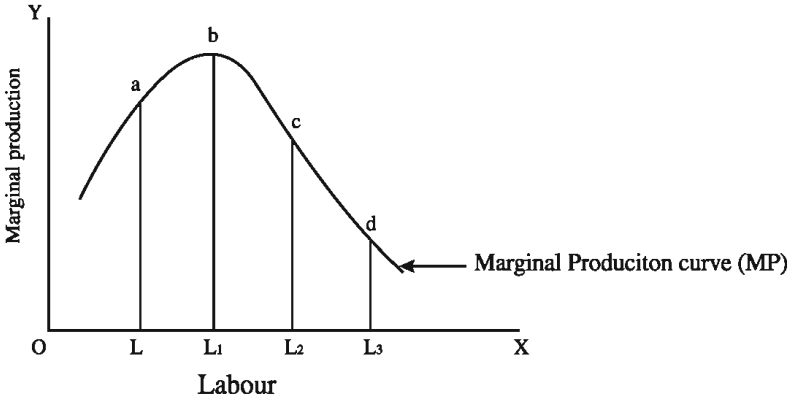
Multiple-Choice Questions

1. How many factors of production are there?

   a. 2 b. 4
   c. 6 d. 8

2. What type of cost is not included in the accounts book of a farm?

   a. fixed cost b. total cost
   c. explicit cost d. implicit cost



Take a look at the diagram above and answer questions 3 and 4.

3. What is the amount of labour at the optimum point of marginal returns?

a. OL
b. OL_1
c. OL_2
d. OL_3

4. From the shape of the MP curve it can be understood that

i. production rises in an increasing manner.
ii. marginal production diminishes gradually.
iii. production rises in a diminishing manner.

Which of the following is correct?

a. i
b. ii
c. ii and iii
d. i, ii and iii

Creative Questions

1. Kabir is a businessman. He has a number of furniture shops at different parts of the country. With the help of 30 employees, he cuts wood and makes different types of furniture from those wood and supplies these furniture to his shops. He employs different people for each of his shops. He participates in the exhibitions for expanding the market for the products. The demand for his products is rising day by day in the market.

a. What is labour?

b. What is law of diminishing marginal returns?

c. Illustrate the process for creating utility as adopted by Kabir, in the light of your textbook.

d. Can Kabir be called a successful organiser? Give reasons for your answer.

2. Hossain Ali produced 50 kg of rice from his land employing one labourer in the first year. For better production, in the following years, he employed more labourers. The production that he gets is shown in the table below–

Number of labourers	Total production of rice (20 tk per kg)	The production cost of rice (taka)	Marginal production
1	50	1000	1000
2	100	-	-
3	130	-	-
4	150	-	-

a. What is total production?

b. What do you understand by personal cost?

c. Fill in the table above and illustrate its main idea.

d. The presented matter in the table is also applicable to the agriculture of Bangladesh. Give your opimon.

Chapter Five

Market

In economics, the concept of market is related to the demand, supply, and price determination of goods, etc. Therefore, the concept of market is explained in perspect of time limit, in terms of area, the nature of the goods and on the basis of competition. There are different types of market in Bangladesh. Changes are noticed in the thoughts and ideas of the buyers and sellers in the market because of many basic characteristics.

After studying this chapter, we will be able to

- illustrate the concept of market.
- describe the method of development of market.
- explain the characteristics of a perfect competitive market.
- compare monopoly market with monopolistic competitive market.
- identify the types of the market systems of Bangladesh.
- be inspired to know about the reasons of the change in the price of goods and their influence.
- draw the market type chart on the basis of competition.

5. Market

Subed Ali is a job holder. He went to New Market in the first week of the month of May to buy the necessary goods for his household. Verifying the prices of fish, vegetables, rice, dal, sugar, oil, salt, etc. he bought these. The traders sold their goods to Subed Ali in exchange for money. Shraboni ordered a dress online. She paid the price getting the dress in time. In the above mentioned events, the connection between the buyer and the seller over the goods is called market.

In economics, market does not stand for just a specific place for buying and selling. Rather, market is a process. A process where goods and services are bought and sold between the buyers and the sellers in different ways, e.g. buying and selling online, buying and selling over the phone or fax. In these types of market, many types of goods can be bought and sold, or some specialised goods can be exchanged. For example, buying and selling cement over phone.

Markets can be different as per the types of the products, e.g. market for jute, market for paddy, labour market, market for tea, gold market, share market, etc. On the other hand, there are very short-term markets, short-term markets and long-term markets, which are based on the duration of time.

The price of the goods is decided on through bargain between the buyer and the seller. The buying and selling of the goods is dependent on this price. Once the price is decided on the buyers and sellers buy and sell products and services. The demand and supply forces decide on the price.

According to the French economist Kurnat, "The economists do not mean any specific place for buying and selling goods by the world market. Rather they mean the whole of a region, where through free communication between the buyers and sellers, there grows the tendency for the price to become equivalent easily and quickly."

Task: Find out the characteristics of market.

5.1 Types of Market

The basic matters that work for the concept of market are demand, supply, time and price.

In the market system, at a specific time, by different mediums, through bargaining the buyer and the seller fix the price of the goods or the service and exchange them. In the perspective of this idea, in the course of time, due to different situations, different types of market have been originated. And the market system has developed.

The originations of market have been different over the time.

1. **Very Short-Term Market:** Where the supply of the goods is stable at a fixed time, the production can not be increased in that short period of time. Even if the demand rises or falls, the supply of the goods cannot be changed. The raw material market can be taken as an example. In this type of market, within the short time in the morning, even when the demand or the price of the goods rises, the supply of the goods cannot be changed.

2. **Short-Term Market:** When there is a change in the demand, the supply may be able to respond a little. In this market, the firm, remaining the same size, can adjust the changeable factors and bring change to the supply to some extent. On the other hand, if the demand of the goods falls, the firm can still produce or if the demand in the market is even worse, the firm can even stop producing for some time. Therefore, in the short-term market, because of any change in the demand of the goods, supply can respond to an extent.

3. **Long-Term Market:** With any change in the demand, any kind of change is possible in the supply. In this case, any production institution can bring a complete change in the size and factors of production. If the demand is growing for a long time, the production organization tries to bring a balance combining the demand and the supply by establishing new machinery and changing the usage of other factors, e.g. raw materials market, fish market, jute, tea or rice market, mango market, labour market, finance market, capital market, woven cloth market, fruit market, etc.

Market is divided into three kinds on the basis of the range of availability of goods.

- **Local Market:** In the market of goods where the sellers and the buyers are limited within a particular area is called Local Market, e.g. the market of meat.
- **National Market:** In the Market of goods where the sellers and the buyers are within a country is called National Market, e.g. the market of coarse rice.
- **International Market:** In the market of goods where the sellers and the buyers are expanded beyond the boundary of a country is called International Market, e.g. readymade garments.

Classification of market on the basis of competition

We have been introduced to the types of the market in the earlier section with respect to the time, place or size of the market. Now we will discuss the total market structure in the light of competition. Actually, this type of analysis is more important for economics. The types of the market on the basis of competition are: 1. Perfectly Competitive Market 2. Imperfectly competitive market. Imperfectly Competitive Market is mainly of 3 tipes: a. Monopoly Market, b. Oligopoly Market, c. Monopolistic Competitive Market, etc. Very briefly some ideas about a number of markets like these are given below.

1. Perfectly Competitive Market

Perfectly competitive market is a system of market where numerous buyers and sellers buy and sell similar kind of products. No buyer or seller can change the price of the good once if it is decided by the demand and supply in the market. The demand of one buyer or the supply of one seller is an insignificant part of the market. Therefore, one or a very few numbers of buyers or sellers cannot influence the market of the similar types of goods. So, the buyer or seller has to comply with the price that has been fixed in the perfectly competitive market.

Characteristics of Perfectly Competitive Market

Let us take a look at the characteristics of the perfectly competitive market.

1. **Numerous buyers and sellers:** There are numerous buyers and sellers of goods in a perfectly competitive market.
2. **The unit of the goods is similar:** The goods considered in a perfectly competitive market are similar or of the same quality. From the perspective of size or quality, one unit cannot be differentiated from another. The units of the goods which are the same according to their making and quality, but still can be differentiated, are known as similar goods, e.g. rice, dal, etc.
3. **The buyer and the seller are fully aware of the market:** If the market system is perfectly competitive, the buyer and the sellers, in that case are fully aware of the qualities of the unit of the goods and the price.
4. **The free entry and exit of the firms in the industry:** In an industry under the perfectly competitive market, a firm can enter freely in the long run, and if necessary, can leave the industry. There is no impediment to that.
5. **No external influence:** There is no external or governmental influence on the setting of production or price in the perfectly competitive market. To sum up, government does not use any influence by taxation, giving subsidies, rationing, etc.
6. **Full mobility of factors:** There is free movement of factors in the perfectly competitive market. There is no obstacle in the movement of any of the factors including the labour factor. Due to the dynamism of factors amongst the industries, the price of the factors remains the same everywhere.
7. **The producer takes the initiative to maximize the profit at a particular price:** The main objective of the perfectly competitive farm is to earn the highest profit at the lowest cost. Although the farm tries to take the profit to the highest at the given cost, in the long term, the industry earns the normal profit. It has to be kept in mind that when the total cost and the total income are the same, that is said to be the normal profit. Here it has calculated that entrepreneur's labour is included in cost side and entrepreneur's honorarium is included in income side.

8. **Unit of the produced good is divisible:** In different markets, different amounts of similar goods are produced. Each of the farms produces the goods dividing them in small parts. Therefore, it can be said that the market of the produced goods is divisible.

2. The Types of Imperfectly Competive Market

a. Monopoly Market

Mono means one and poly means seller. Therefore, the meaning of the word 'monopoly' is only one seller. The dictionary meaning of the word monopoly is the sole right to produce and sell goods by a person, government or corporation. Therefore, when a firm produces these goods and supplies them to the innumerable customers, the firm is called a monopoly business, and the market where that goods are bought and sold is called the monopoly market. The firm that achieves the monopolistic right to sell goods controls the supply of the goods in the market. Up to a fixed period of time, no other firm than this particular one can produce those goods, so there is no difference between a firm and an industry in the monopoly market. A completely monopolistic market may be a bit difficult to find. But a number of examples can be given of the almost monopoly market, for example, Bangladesh Oxygen and Arms and Ammunition factory situated at Joydevpur, etc.

Characteristics of Monopoly Market

The following characteristics can be identified if the monopoly market is analysed:

1. **The seller controls the production or supply:** In a monopoly market, there is only one producer or seller. Therefore, the seller is the one who entirely controls the production and supply of the goods in the market.
2. **There are no near-alternative goods:** There are no near-alternative goods for the product produced and sold by the monopolistic farm. That means, there is no similar or nearly similar goods for that product.
3. **Try to earn the highest profit:** If the monopoly business is run by a person or private sector, the objective of the monopoly business is to earn the highest profit.

4. **The firm and the industry are the same for the monopoly business:** There is only one firm in monopoly market. Thereby, that firm is known as the industry.

5. **Singular controller of the price or supply:** The monopoly firm singularly supplies the production. Being the only producer, it can control the price or the supply of the product very easily, but it can not control both price and supply at the same time.

6. **The entry of a new firm is prohibited:** In the monopoly industry, there is no opportunity for any new firm to enter. When there is a possibility for a new firm to enter, the monopoly firm increases the production and allows the price to fall. Thereby, in fear of a probable loss, the new firm does not enter. That is why in a monopoly market, no new firm can enter.

Task: Compare perfectly competitive market and monopoly market.

b. Monopolistic Competitive Market

In the monopolistic competitive market, a few characteristics of both the perfectly competitive market and the monopoly market are observed. In a monopoly market, the goods that the different farms produce may be similar but not completely the same. That is, there are some differences among the products. And in this difference of the goods, the features of the monopoly market are prevalent. On the other hand, as there are numerous buyers and sellers, the features of a perfectly competitive market are also observed. The market, which is based on the combination of competition of almost similar but differentiable products and monopoly products, is called the monopolisitc competitive market e.g. body soap made by different companies are almost the same, yet it is possible to differentiate between them, e.g. the covers are different or the scents are different. If the price of any of these soaps rises, the demand of soaps may fall a little, but does not become zero. The fixed buyer of this soap always buys this soap. If there is a change in the price of these goods, the buyer does not leave to consume this goods or to use it.

Characteristics of Monopolistic Competitive Market

The major characteristics of the monopolistic competitive market are discussed below:

1. **Number of firms/sellers:** In the monopolistic competition, one farm can control a small portion of the total production of the market. So, it is not possible for any firm to exert considerable influence upon the price of the goods or the total production. Therefore, sometimes there exist unions or firms that belong to a group.

2. **Differentiation between the produced goods:** Different products that different firms produce in this type of market are to a large extent similar yet differentiable from one another. The goods are different to some extent regarding quality and some external factors. That is, the differentiation between the products means that the goods produced by different firms are not of the same kind. That is why the monopolistic competition starts off.

3. **The free entry and exit of a firm in the industry:** In the monopolistic competition, there is no restriction for any firm to enter the industry or exit. Usually, if any firm makes excessive profit over the short term, new firms enter the industry in the long term. On the other hand, facing a loss, a firm can leave the industry in the long term. There is no internal or external objection regarding that.

4. **Advertisement and the cost of sale:** Each of the firms publicizes its goods more to enhance its sale. The cost of advertising and other related costs of selling for these firms, therefore, increase. The firms compete with one another by advertisements and the standards of qualities of the products.

5. **The nature of demand:** If a firm increases the price of its goods, many consumers buy the alternative goods of other firms, but there are some consumers who continue to buy the product of the first firm even if in a smaller quantity. That means the demand for some goods does not fall to be zero even when the firms increase the price of those goods. Some of the buyers have special preferences for some firms, therefore, the shape of the

demand curves of each of the firms is not usually the same. The shape of the demand curve mainly depends upon how much different the goods of the firm are being considered from the goods of the other firms.

6. **Maximization of profit:** In a monopolistic competitive market, the objective of each of the sellers is to maximize the amount of the profit to its optimum limit.
7. **Copying the goods:** In the monopolistic competitive market, one seller cannot copy the goods produced by another seller completely. Thereby, each of the sellers or firms, like the monopoly firms, can control the supply of their own goods and thus, by controlling the supply can also control the prices of their goods.
8. **Long term situation:** The balance of the firm in the long term in the monopolistic competitive market remains at the normal profit level like that of the perfectly competitive market.

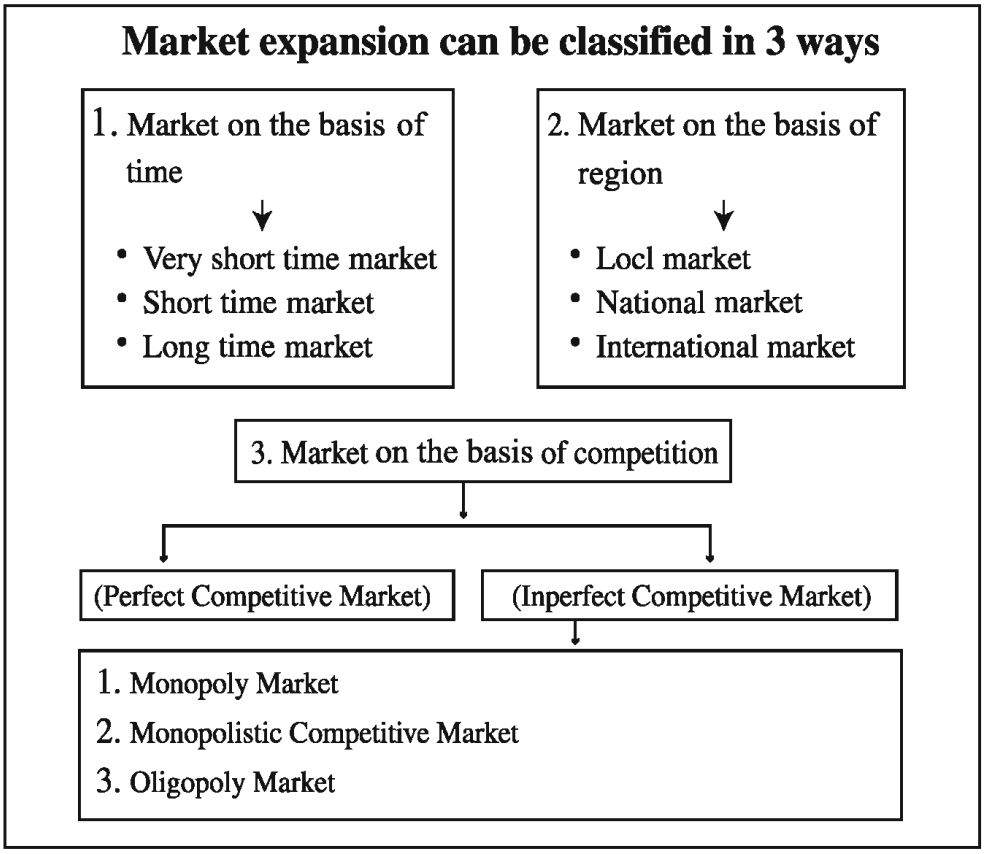
c. Oligopoly Market

Oligopoly is such a market where several sellers and many buyers buy and sell homogenous or almost homogenous goods. In this type of market, a seller takes decision by observing other sellers' strategy, e.g. Firm 'A' of telecommunication sector, uses a filmstar in it's advertisement; Firm 'B' uses a popular player in it's advertisement to attract the buyers.

Characteristics of Oligopoly Market

1. **Number of seller:** This type of market has a few sellers.
2. **Nature of goods:** The goods of this type of market are homogenous or identical or almost homogenous of which a little can be differentiated.
3. **Decision Making:** By observing other competitive firms' strategy, a firm in this type of market makes decision in choosing the price of its goods and amount of production.
4. **Influence of Advertisement:** In this market, firms resort to advertisements to attract the buyers.

Task: Prepare a chart of the market system on the basis of competition.


Market expansion can be classified in 3 ways
1. Market on the basis of time
• Very short time market
• Short time market
• Long time market
2. Market on the basis of region
• Locl market
• National market
• International market
3. Market on the basis of competition
(Perfect Competitive Market)
(Inperfect Competitive Market)
1. Monopoly Market
2. Monopolistic Competitive Market
3. Oligopoly Market

5.2 Market System of Bangladesh

The perfectly competitive market system, the monopoly market system and the monopolistic competitive market system have been discussed in this chapter. Because of the nature and environment of Bangladesh, different types of market and modes of buying and selling can be observed for different kinds of goods. The three types of market can be discussed as realistic examples.

1. **Perfectly Competitive Market:** There is no perfectly competitive market for any goods in Bangladesh, but nearly perfectly competitive markets can be found. The retail market of agricultural goods in Bangladesh is a good example of this type of market. For example, in the primary market of rice there are numerous buyers and sellers and no single producer can influence the market of rice. Similarly, markets for other crops, fish, chicken, egg, milk, etc. are also perfectly competitive or almost so. This market is also seen in cases of some services too, e.g. rickshaw transportation.

2. **Monopoly market:** Monopoly market of produced goods is not found in Bangladesh. But in cases of imported products or services, this type of market exists, e.g. the only importer of fuel oil is Bangladesh Petroleum Corporation. This type of market is also prevailing in Dhaka city in the cases of water, electricity and gas supply. For railway transportation, Bangladesh Railway is the only institution.
3. **Monopolistic competitive market:** The market for different goods in Bangladesh is monopolistic competitive, e.g. different food products, cosmetics, etc. For some services also, this type of market can be found, e.g. private hospitals and diagnostic centres.

Task: On the basis of place what kinds of market are the following products? Give arguement.

Name of the goods	**Name of the region market and argument**
a. Mangoes	.....
b. Jackfruits	.....
c. Vegetables	.....
d. Fish	.....
e. Woven cloths	.....
f. Tea	.....
g. Guavas, bananas, boroi	.....
h. Coconut	.....
i. Cow-milk	.....
j. Meat	.....

Exercise

Short Questions

1. What is meant by market?
2. What is the rule of price?
3. What are the three fundamental things in the market system?
4. How many types of market are there from the standpoint of time and what are they?
5. How many types of market are there regarding region and what they are?
6. What is money market?
7. What is meant by labour market?
8. Give an idea of goods market.
9. Give an idea of firm and industry.
10. What is factor market?

Descriptive Questions

1. Illustrate the classification of market from the perspective of time limit.
2. Give an idea of a perfectly competitive market and Inperfect competitive market. Mention the 8 characteristics of perfectly competitive market.
3. Explain the characteristics of monopoly market.
4. Give an idea of monopolistic competitive market. Illustrate its features.
5. Make a chart of the market structure based on the competitions mentioned in your book. Give an introduction to the market systems of different products in Bangladesh.

Multiple-Choice Questions

1. 'Buyers and sellers completely know the quality of goods and price'. In which market can you find this characteristic?

   a. Monopoly
   b. Perfectly competitive
   c. Oligopoly
   d. Monopolistic competitive

2. Buying and selling according to the law of price mean

   i. through the bargain between buyer and seller.

   ii. by the mutual action and reaction of demand and supply.

   iii. on the basis of a fixed price.

Which of the following is correct?

a. i ? b. i and ii

c. ii and iii d. i and iii

Read the following passage and answer question numbers 3 and 4.

Bringing small fishes and chickens from roadside market, Mr. Siddique came home at 8 A.M. Mrs. Siddique informed that there were no vegetables at home. He said that vegetables would not be available at that time.

3. From what type of market did Mr. Siddique buy fishes and chickens?

a. very short term b. long term

c. very long term d. short term

4. The characteristic of this market is

   i. arrival of too many people for buying and selling goods.

   ii. the quality and the shape of the sold goods are of the same type.

   iii. the same person controls the supply of goods of the market.

Which of the following is correct?

a. i and ii b. i and iii

c. ii and iii d. i, ii and iii

Creative Questions

1. Kamal: Give me a Matador pen.

   Shopper: Bhaia, this week the price of the Econo pen has gone down. Would you like to have that?

   Kamal: Why? Is Econo different in quality from matador?

   Shopper: No, it's not like that. There are many companies in the market. All of their pens are almost the same; They just look a little different.

   Kamal: In that case, give me a Matador, please. I like it more.

   a. What is a firm?

   b. Explain the idea of short term market.

   c. Which market does the product bought by Kamal belong to? Explain.

   d. Analyse the relation between the perfectly competitive market and the market of the goods bought by Kamal.

2. Rimi uses bags of one particular brand. When she goes to the market to buy a new bag, she finds the price much higher than earlier. When she wanted to know the reason for this, the shopkeeper answered that the bags are imported by only one company. They have got nothing to do if the company raises the price. Since there is no other bag like this in the market, Rimi has to buy the bag at a higher price.

   a. What is a factor?

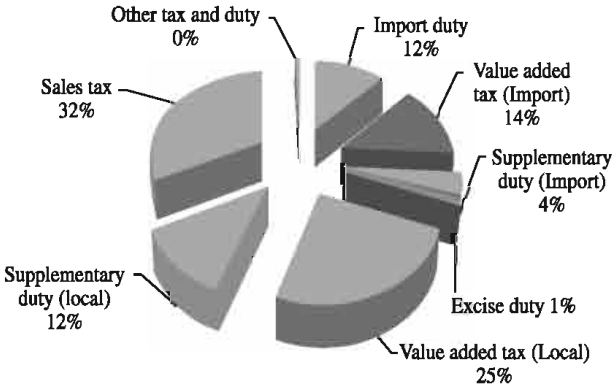
   b. What is meant by product differentiation?

   c. Which market are the goods that Rimi bought from? Explain.

   d. What is the kind of the goods bought by Rimi in Bangladesh? Analyse.

Chapter Six
National Income and Its Measurments

The economic situation of a country can be understood from the national income of that country. That is, it is possible to assume whether the country is developed or developing or underdeveloped. To know how much the national income of a country is, national income has to be measured. In this chapter, the system and technique of measuring the national income of Bangladesh will be discussed.


Other tax and duty 0%
Import duty 12%
Value added tax (Import) 14%
Sales tax 32%
Supplementary duty (Import) 4%
Supplementary duty (local) 12%
Excise duty 1%
Value added tax (Local) 25%

After studying this chapter, we will be able to

- illustrate the ideas of national income.
- show the differences between the national income (NI) and the gross domestic product (GDP).
- compare the national income (NI) and the net national product (NNP).
- illustrate the systems of measuring the national income.
- classify the determinants of GDP in two groups, which are factors and technology.
- prepare a list of the factors outside GDP.
- describe the system to measure the national income in Bangladesh.

6.1 Concepts of National Income

Gross Domestic Product (GDP)

At a specific time, usually one year, the sum total of the market price of the final goods and services produced within the geographical boundary of a country is called the gross domestic product or **GDP.**

Let us assume that three goods are produced within Bangladesh in a year, e.g. 100 quintals of paddy, 1000 shirts, and 1000 pens. GDP=100 quintal of paddy × the market price of paddy + 1000 shirts × market price of shirts + 1000 pens × market price of the pens. Thus GDP of a country is calculated by summing the result of the multiplication of the amount of all produced goods with their own prices. If rice is produced as a final goods from paddy, then at the time of calculation, we will have to estimate the production and the price of rice.

Gross National Income (GNI)

At a specific time, usually within one fiscal year, the sum total of the market price of the total amount of the final goods and services produced by the citizens of a country is known as the gross national income or GNI.

The gross national income can be determined by adding the gross domestic product and the net factor income. Net factor income means the subtraction result of the income of the citizens of a country from foreign investments and labour, and the income of the foreign citizens from their investment and labour in the country being considered. If this amount is negative, the gross national income will become less than the gross domestic income. Again, if it is positive, the gross national income will become less than the gross domestic income. The second one is true in the perspective of Bangladesh.

Net National Income or (NNI)

In an economy, at a specific time, if the Capital Consumption Allowance or CCA or Depreciation is deducted from the monetary price of the final products and services, what is left is known as the net national product or NNP. The capital consumption allowance means the cost of the supervision for the wearing away or decays due to the use of the capital.

Task: 1. Distinguish GNI and GDP?
Task: 2. What is CCA (Capital Consumption Allowance) really?

6.2 Measurments of National Income – Production, Expenditure and Income Approach

The national income can be measured basically in three ways. They are– the Production approach, the Income approach and the Expenditure approach.

1. **Production approach:** The economy of a country is divided into some important sectors. Adding the value of the final products and services produced in these sectors in one year, the gross domestic product can be calculated. The economy of Bangladesh can be divided into 15 sectors and the value of the production is decided sector-wise. In the end, summing up the value of production in these 15 sectors, the gross national product is determined.

2. **Income approach:** The National income in this system is the sum total of the income received by the factors used in production. The basic factors used in production are – land, labour, capital and organisation. Their incomes are respectively revenue, wage, interest and profit. Therefore, national income = revenue + wage + interest + profit.

3. **Expenditure approach:** In this system, the national income is the sum total of all kinds of expenditure in a society at a specific time. The total expenditure in a society stands for the cost of consumption and investment of the individual sector and the governmental expenditure and the net export. Therefore, consumption + investment + governmental expenditure + net export (= export - import) = gross domestic product. So, gross domestic product or Y = C +I+ G+(X-M). Here, C = consumption, I = investment, G = governmental expenditures, (X-M) (export-import) = net export.

If the amount of the gross domestic product calculated in these three systems is fairly the same, the measurement is considered to be correct. Due to the mistakes in calculation, there may be some difference, but in the real sense, the result will be the same.

6.3 Per Capita Gross Domestic Product

GDP per capita means the annual GDP per person. In a specific fiscal year, if the total gross domestic product is divided by the total population, the GDP per capita can be calculated.

$$\text{As per formula, GDP per capita} = \frac{\text{the total gross domestic product of one year}}{\text{the total population of that year.}}$$

GDP per capita is the primary indicator of the economic development and the standard of living of a country. By this indicator, we can determine if a country is developed or underdeveloped, or developing. If the GDP per capita is more than a particular level, it has to be understood that the country is developed, and if the GDP is less, the country is to be considered as underdeveloped or developing.

6.4 Determinants of Gross Domestic Product-GDP

The amount of the gross domestic product of a country depends upon the the amount and the productivity of its land and other natural resources, labour, capital and technology. Therefore, they are called the determinants of the gross domestic product.

1. **Land:** The gross domestic product depends on land and natural resources. The gross domestic product will increase if satisfactory usage of the natural resources is possible and if there is necessary fertile land for producing agricultural products. Therefore, land and natural resources are the significant determinants of the gross domestic product.
2. **Labour:** Labour is a significant determinant of the gross domestic product of a country. Skilled and efficient labour force is helpful for increasing the gross domestic product. If the number of labourers increases and if they know the use of technology, and are trained, it becomes helpful for increasing the gross domestic product.
3. **Capital:** Capital is a fundamental determinant of increasing the gross domestic product of a country. In the developed countries of today, capital works at the root of increasing gross domestic product. On the other hand, the

developing and underdeveloped countries cannot increase their total national income and the gross domestic product due to their lack of capital. Therefore, capital is an important determinant of the gross domestic product.

4. **Technology:** The gross domestic product largely depends on technology. Technology can be developed in many ways. For example, new inventions, development of the design of the machinery and skills, invention of new products, etc. As it can be seen, the use of highly productive seeds instead of the regular seeds in the agricultural sector has increased the production of rice many times. Similarly, the use of seeds of better quality has also resulted in enhanced production of different vegetables, such as gourd, pumpkin, okra or finger, etc. Technology basically enhances the productivity of the factors of production. As a result, more production is possible with the same production factors.

5. **Mobility:** The gross domestic product depends on the capacity to move the resources from the economic activities that are lagging behind or diminishing, to the newly expanding economic activities in an economy. For example, it may be mentioned that in Bangladesh we can increase the use of land and other factors in the production of rice, wheat or corn by decreasing the production of jute.

6.5 Factors not included in GDP Calculation

The total market price of the final products and services in an economy at a specific time is known as the gross domestic product. The following factors are never included while calculating GDP.

1. **Capital gains and losses:** With the change of time there may occur changes in national resources or factors of a production institution or the price of the produced goods resulting into profit or loss. This profit or loss is not counted in calculating GDP. Because, the profit or the loss due to the change in the price of the resources in course of time does not influence determining the national income. Besides, this profit or loss is recorded only in the cases of an individual business institution. While there is profit for one institution, the same amount of loss occurs for another. So, the influence of profit or loss in calculating the GDP is zero.

2. **Intermediary goods and services:** To calculate national income, only the final goods and services are considered. Because, the prices of the intermediary goods and services are included in the price of the final goods and services. If the intermediary goods and services are considered again after the final products, there will be the problem of double counting. For this reason, the intermediary goods and services are not considered while estimating the GDP.

3. **Goods and services free of charge:** There are some goods and services in the economic system which are not bought or sold through market, e.g. a mother rearing her children, the cooking and other household work of women, a singer singing to his friends, these are not produced goods. Therefore, while estimating the GDP, the value of these services cannot be included.

4. **No consideration for previous production and transaction:** GDP calculated for a certain year does not include any production of any previous year in the GDP of that year, e.g. old cars, old houses or flats. The price of these products is included in the GDP of that year when they were bought. The problem of double counting will arise if these are calculated again. Similarly, the exchange of stock, bond or any paper is not included in the GDP.

5. **Interest on public debt:** The interest against a governmental loan is not to be included in the GDP. For example, the loan taken by the government during a war, does not contribute to the national production. The interest against this loan is taken to be the transferrable due. And therefore, it is excluded from the GDP.

6. **Illegal activities:** Income from any illegal activity is not included in estimating the national income. Illegal activities mean, any activity that is not acceptable socially and is against the prevailing law of the country.

Task: Make a list of the goods and services that are not included in the calculation of gross domestic product.

6.6 Method of Estimation of National Income (GDP) in Bangladesh

Bangladesh Statistics Bureau is a government institution that is entrusted with the responsibility of estimating the national income of Bangladesh. Estimating the current market price and the fixed price of the goods and services, the Statistics Bureau measures the GDP and the GNI every year. For these estimations the institution has to collect data from different sources.

Bangladesh Statistics Bureau estimates the GDP and the GNI, using the production approach and the expenditure approach. In the production approach, to estimate the GDP, the economy is divided into 15 different sectors. These are:

Estimating the GDP in the Production Approach

Contribution of different sectors in national income (GDP) of Bangladesh

1. **Agriculture and forest resources:** Agriculture is an important sector of the domestic product. It is difficult to estimate in any formatted way. To estimate the GDP of Bangladesh, this sector is divided into three parts.

(a) **Crops and vegetables:** The amount of domestic product in this sector is estimated from the perspective of the current wholesale market price. For example, in 2014-15 it was estimated at 1,26,121 crore taka and in 2015-16 it was estimated at 1,34,322 crore taka.

(b) **Animal resources:** The estimation of domestic product in this sector also is done on the basis of the current market price. In this sub-sector of animal resources. In 2014-15, it was 29,885 crore taka and 2015-16 it was 33,165 crore taka.

(c) **Forest resources:** In the forest sector, because of the lack of data regarding the factors, while estimating the GDP, 3% of the price of the total production is deducted and the rest is considered to be the value added. In 2012-13, the domestic production was 16,605 crore taka in 2014-15 was 20,494 crore taka and in 2015-16 was 22,827 crore taka.

2. **Fish resources:** GDP is calculated from the perspective of gathering fish from the internal and sea sources. In 2012-13 the GDP in this sector was 36,995 crore taka, in 2014-15 it was 47,581 crore taka and in 2015-16 it was 53,076 crore taka.

3. **Minerals and mining:** Minerals and mining is taken as a separate sector in the industrial sector. In this sector, the market prices of (a) natural gas and unrefined oil and (b) other mineral resources and produced goods from mining are calculated. The calculation of these sectors are done in terms of gross national product. The income from this sector in 2012-13 was 19,461 crore taka, in 2014-15, 23,876 crore taka and in 2015-16 it was 28,578 crore taka.

4. **Industry (manufacturing):** In the case of estimating GDP in Bangladesh, the present market prices of the produced goods of all the industries are calculated. In 2014-15 industrial production, large and small industrial production and small industrial production were worth of Tk. 2,54,483 crore, 2,05,992 crore and 48,491 crore respectively. In 2015-16 industrial products large and small industrial production and small industrial production were worth of Tk. 2,95,111 crore, Tk. 2,40,164 crore and Tk. 54,947 crore respectively.

5. **Wholesale and retail selling:** In this calculation, the GDP product is estimated by calculating the wholesale price of goods. In 2012-13 it was 1,54,579 crore taka, in 2014-15 it was 1,92,585 crore taka and in 2015-16 it was 2,24,257 crore ta.

6. **Electricity, gas and water resources:** GDP is estimated in this sector on the basis of the value of supplying the services. This sector is very important for Bangladesh. Alongside the government, this sector is extended privately, too. The gross domestic product in 2012-13 was 16,381 crore taka. Amidst that, (a) in the subsector of electricity, it was 12,168 crore taka, (b) in the sub-sector of gas it was 3,448 crore taka and (c) in the sub-sector of water it was 766 crore taka. In 2014-15, the total from these three sctors was 19,868 crore taka. In 2015-16 it was 23,829 crore taka.

7. **Construction:** The gross domestic production in this sector is estimated from the data received from the individual, the construction institutions, the consumers and the government. In reality, the amount of income from this sector is less, compared to what it should be because, the current market price is more than the price set by the government.

Whereas, GDP is calculated based on the price that is fixed by the government. 82,432 crore taka was earned from this sector in 2012-13, and 90,834 crore in 2013-14. In 2015-16 it was 1,26,353 crore taka.

8. **Hotels and restaurants:** The matter of gross domestic product in this sector is estimated from the perspective of produced goods and the selling price of the services. In 2012-13, 11,263 crore taka was earned from this sector, and in 2014-15, 14,928 crore taka. In 2015-16, 17,058 crore taka.

9. **Transport, preservation and communication:** This sector is quite a big one regarding the estimation of the domestic income. A big portion of this sector belongs to the private sector. Even so, the gross income from this sector in 2012-13 was 1,24,281 crore taka, of which (a) 92,183 crore taka was earned from the sub-cector of land-route, (b) 7,649 crore taka was earned from the sub-sector of water ways, (c) 1,047 crore taka was earned from the sub-sector of air-route, (d) 6,001 crore taka was earned from the sub-sector of associate transport services and preservation, and (e) 17,400 crore taka was earned from the sub-sector of mail and cable communications. In 2014-15, the total income in the transport, preservation and communications sector was 1,50,025 crore taka. In 2015-16, 1,69,165 crore taka.

10. **Financial institutional services:** The estimation of this sector depends on the price received from the services. In 2012-13, the amount of domestic product value was 42,237 crore taka, of which (a) 34,727 crore taka came from the banking sector, (b) 4,920 crore taka from the insurance sector, and (c) 2,590 crore taka from the other sectors. In the fiscal year 2014-15, the amount was 55,761 crore taka. As per the sub-sectors, the income was 46644, 5937 and 3180 crore taka respectively. In 2015-16 it was 63,601 crore taka and sub-sector 53789, 6327 and 3485 crore taka.

11. **Real estate, rent and other businesses:** The domestic production in this sector is estimated on the basis of the income received from services. In 2012-13 the domestic income was 78,820 crore taka, and in 2014-15 it was 10,060 crore taka. In 2015-16, 1,23,740 crore taka.

12. **Public administration and defence:** The domestic income from this sector is actually calculated from the expenditures. The domestic product in 2012-13 was 37,678 crore taka, and in 2014-15 was 50,674 crore taka. In 2015-16 it was 66,711 crore taka.
13. **Education:** In the education sector of Bangladesh the domestic product is estimated from expenditures. In 2012-13, the domestic production was 28,429 crore taka and in 2014-15 it was 37,624 crore taka. In 2015-16 it was 46,512 crore taka.
14. **Health and social services:** The estimation of the health and social services is done by the expenditure approach. In this case, the total domestic product expenditure in 2012-13 was 23,868 crore taka and in 2014-15 it was 30,135 crore taka. In 2015-16 it was 34,758 crore taka.
15. **Community, social, and personal services:** The estimation of this sector is also done from the expenditure approach. In 2012-13, 1,38,952 crore was the expenditure in this sector and in 2014-15, it was 1,76,402 crore taka.

[**The Source of all information of this chapter:** Bangladesh Economic Review 2017.]

Exercise

Short questions

1. Give an idea of the gross domestic product.
2. What is meant by the gross national income?
3. What is meant by net national income?
4. Give the full form of GNI, GDP and NNI.
5. What is meant by CCA?

Descriptive questions

1. Illustrate the approaches of estimating national income.
2. Describe the determinants of gross domestic product.
3. Describe the matters that are not included in the accounts of the gross domestic product.
4. Describe the contribution of sub-sectors of agriculture in national income of Bangladesh.

Multiple-Choice Questions

1. What is annual income per person?
   a. national income
   b. net income
   c. GDP
   d. per capita income
2. Which one of the following is taken into the estimation of national income?
   a. price of the final goods and services
   b. price of the intermediary goods and services
   c. interest of governmental loan
   d. income by corruption

Read the following passage and answer questions 3 and 4.

By sowing better quality seeds in the next year, Rumana got more vegetables than what she got in the first year by sowing ordinary seeds on the compound of her house.

3. For increasing production, the use of which one of the following did Rumana change?
   a. land
   b. labour
   c. technology
   d. capital
4. This type of change in production
   i. increases GDP.
   ii. increases GNI.
   iii. decreases NNI.

Which one of the following is correct?

a. i
b. ii
c. i and ii
d. ii and iii

Creative Questions

1. Event: 1

Shihab has been working in Bahrain for 10 years. Every month he sends a portion of his income to his country.

Event: 2

Mrs Brownie is a British citizen. She is working at a private organization in Bangladesh. She also sends money to her country every month.

a. What is net national income?
b. How is national income estimated by the income approach? Explain.
c. How is the sending of money by Shihab related to the estimation of national income? Explain.
d. How would the income of Mrs. Brownie influence the national income of Bangladesh? Give your own opinion.

2. Zahir went to his grandfather's home at Madhupur. His grandfather has fish in his pond. Zahir saw many trees and animals near his grandfather's house. He came to know that it is a special kind of region.

a. What is the full form of CCA?
b. What is understood by gross domestic product?
c. Which sector of economy would the region that Zahir finds near his grandfather's house be included in?
d. Analyse in the light of the textbook, the contribution of the pisciculture by Zahir's grandfather in the economy of Bangladesh.

Chapter 7

Money and Banking System

Nabil's father is a service holder. His monthly salary is 20000 taka. He keeps some cash for household expenses and deposits some money to the bank. After some days, he decides to set up a poultry farm. For this he takes some loan from the bank. The bank sanctions this loan to him on condition of repaying it within 36 months at 10% interest. His income-expenditure, savings and loans- all are generated by money. Money and loan business are operated by bank and financial institutions. The bank receives the surplus money of the public as deposits and sanctions this to debtors as loans. Different banks play significant role in our agricultural development, industrialization, self-employment and trade and commerce.

After studying this chapter, we will be able to

- describe the idea and classification of money.
- explain the functions of money.
- describe the concept of a commercial bank and its main functions.
- illustrate the procedures of opening and operating a bank account.
- explain the concept of the central bank and its major functions.
- compare the central bank with commercial banks.
- evaluate the role of some important banks of Bangladesh in agricultural development, industrialization and self-employment.
- show the banking system of Bangladesh by drawing charts.

7.1 Money and its classification

For a long time farmers used to collect their clothes from weavers in exchange for crops and fishermen used to collect utensils from potters in exchange for fishes. This system of fulfilling the necessities of certain goods in exchange for other goods is called the Barter System. This system is still practiced in some rural areas of our country. But this system created some problems sometimes (e.g. problems in division of the goods and the dissimilarities in needs, etc). To overcome these problems, money was invented. In modern economy money is unanimously approved and accepted as the medium of exchange. Money functions as a mode of exchange, a measure of the prices of services and goods, and as a mode of savings.

So the object that is promoted by the government, generally accepted as a measure of value, accepted everywhere as a medium of repayment of debt, and granted by all as the mode of savings and basis of loan, is called money. It is named differently in different countries, like Taka in Bangladesh, Rupee in India, Dollar in America and Euro in most of the countries of Europe.

Classification of Money

Money can be classified from various points of view. It is discussed below:
According to the components of making, money can be classified in 2 types, like:

1) Metal coins
2) Paper notes

Metal Coins

The coin which is made by metals and used to conduct our day-to-day transactions is called a metal coin. In Bangladesh, metal coins of 5 taka, 2 taka, 1 taka and 50 paisa are available.

Metal Coins

Metal coins can be classified into two groups based on material value. They are: (a) authentic coin, (b) symbolic coin. An authentic coin is the metallic coin,

which can be sold at its visible price if sold as metal only after melting it. Symbolic coin holds less value as metal than its visible value. Generally, metal coins are introduced and authorized by the government.

Paper Money

The money which is made of paper is called paper money. The value written on the note is the monetary value of that note, which is generally higher than its internal value. In almost all the countries, paper money or paper notes are introduced by the central bank by the order of the government of that country. The paper money of Bangladesh includes the notes of 1 taka, 2 taka, 5 taka, 10 taka, 20 taka, 50 taka, 100 taka, 500 taka and 1000 taka.

Paper money can be divided into two parts, as: (a) convertible money (b) non-convertible money. Convertible money means the paper notes instead of which the government is bound to give the local money of equal value on demand. In Bangladesh, the notes of 5 taka, 10 taka, 20 taka, 50 taka, 100 taka, 500 taka, and 1000 taka are the convertible money. And non-convertible money means the paper notes against which no foreign currency, gold, silver can be received from the government. The non-convertible money in Bangladesh is the notes of 1 taka and 2 taka. Money can be divided again according to the obligations of acceptance, such as: 1. Legal Money 2. Bank Account.

Legal Money

The money which is approved by the government law is called legal money. In our country the legal money is formed of the metal coins and paper notes authenticated by the government and the central bank. The legal money can be divided into two parts: (a) unlimited legal money (b) limited legal money. The unlimited legal money means the legal money by which any amount of transaction can be made legally and if it repays the debts and dues the creditor is bound to receive it. The unlimited legal money of our country is the notes of 5 taka, 10 taka, 20 taka, 50 taka, 100 taka, 500 taka and 1000 taka. On the other hand, limited legal money means the legal money which can be transacted up to a certain limit. The public cannot be forced or compelled to receive more money legally and public can receive it according to their wish. The limited legal money of our country is the metallic coin of 50 paisa, 1 taka, 2 taka and 5 taka.

Bank Created Money

At present to repay the business transactions and debts and dues, people receive bank account or bank money as the medium of exchange. But no one can be forced to receive it. Commercial bank can create money by creating deposits or sanctioning loans.

Debit card & credit card

Transactions can be made through check against the bank deposit or over draft. The bank deposit or account may be considered as money. In our country bank money is the deposit in current account and deposit in savings account, which can be received through cheque. Besides, debit card and credit card introduced by a bank work as the medium of exchange.

Task: Make a chart of the classification of money.

7.2 Functions of Money

Money plays different types of significant roles in the modern production system and social lives.

While describing the functions of money, the poet says,

'The thing that measures exchange and value
Paying the loans and savings,
Everyone knows that Money it is'
(translated)

The following two lines of an English poem refers to the functions of money:

"Money is a matter of functions four;
A medium, a measure, a standard, a store."

This means that, money has four functions. Those are: medium of exchange, measure of price, means of savings and standard of delayed or postponed transaction.

Below is a description of the four major functions of money:

Medium of exchange

Transaction is done through exchange of money as money is acceptable to everyone. A salesman takes money in exchange for things and a customer buys things by paying money. In this way, by exchanging money anytime any product or service can be purchased. For that reason transaction becomes easy and fast. So, it can be said that money is the easiest and the most convenient medium of exchange.

Measure of price

As a meter measures length and a kilogram measures weight, money is used as the scale to measure the price of products and services. For example, Amir buys a book for 50 taka. Here, 50 taka is the assessor of price of that book. Through money, we can easily measure the price of a product and services and we can also make comparisons between the former and then the upcoming price of a product and services.

Means of savings

Savings cannot be built through products as most of the products are perishable. On the other hand, service is a living item for consumption and so industry and services cannot be stored. But the price of these kinds of products and services can be stored by money as everything can be exchanged through money. Nowadays people can save their surplus after subtracting the consumption cost from the production wages because savings through money is much more secure and comparatively stable.

Standard of delayed or postponed transaction

Delayed transaction refers to future dealings. The calculation of these dealings is done through money. Moreover, taking and returning loans by money is more appropriate. As a result, economic activities can be done without any hindrance. At present, most of the business transactions are finanlised through cheques, bank drafts, exchange bills, debentures, etc. The bank circulates these debentures on the basis of the cash saved as a fixed deposit. Thus, money is considered to be the basis of loans and the standard of delayed transaction.

Apart from the above mentioned tasks, money also works as a price transmission medium, standard of liquidity and a symbol of social status. These roles of money are not different, rather one has arisen from another. Hence, it is said that the economic development of the society has become easily accessible because of the functions of money.

Task: Money has made our day-to-day life easier. Explain.

7.3 Commercial Bank

The bank that saves money from any individual or company as deposits and provides loans to an individual or a company for commercial purposes according to their demands is called a commercial bank. The main objective of a commercial bank is to earn profit. These banks give interest at a low rate on the deposited money. Alternatively, they charge interest at a higher rate from the debtors. The difference between these two interests is the profit of a bank. The bank gives loans for a short time from its reserve as it is bound to return money whenever the account-holder demands it back. That is why this type of bank is known as entrepreneur of short-term-loan.

Commercial banks of Bangladesh are: Sonali Bank, Janata Bank, Rupali Bank, Agrani Bank, Pubali Bank, Uttara Bank, City Bank, Arab-Bangladesh Bank, Dutch-Bangla Bank, etc.

Sonali Bank Building

Janata Bank Building

Functions of Commercial Bank

In modern times, as a result of its performance of various activities, the commercial bank has become an important organization of the state. Below is a discussion on the major functions of a commercial bank:

1. Accepting Deposits

The first and foremost function of a commercial bank is to collect deposits from individuals and companies. Commercial banks accept three types of deposits- (a) Current Deposit, (b) Savings Deposit, (c) Fixed Deposit.

(a) **Current Deposit:** The account-holder of a current deposit can withdraw money anytime. For that reason, no interest is given on this deposit.

(b) **Savings Deposit:** Money of savings deposit can be withdrawn twice a week after a certain period of time. The bank gives some interest on this deposit.

(c) **Fixed Deposit:** This deposit is for a certain period. For example, 3 months 6 months, 1 year, 3 years, 5 years, etc. The bank gives interest at a higher rate on this deposit. Money of such a deposit can even be withdrawn before it matures. Some terms and conditions are followed in this case. But less interest is paid.

2. Providing Loans

For earning profit commercial bank retains a particular amount of the deposit to meet the demands of the account-holders and with the rest of the money it provides loans to individuals or companies for short periods. Commercial banks provide loans against appropriate surety and mortgage, e.g. expensive metal, metal products, government and foreign debentures, and permanent assets. Commercial banks of our country provide loans for house-building, fisheries, trade and commerce and industry.

3. Creating medium of exchange

At present commercial banks create cheques, bank-drafts, e-payments, money-laundering and travelers' cheques as easy mediums of exchange. Bank-issued cheques are vastly used in the mediums of exchange. In developed countries most of the transactions are accomplished through cheques.

4. Supporting local and foreign trade

For supporting trade at both national and international levels, commercial banks besides supplying money, provide suggestions to businesspersons. In addition, giving identification in exchange-bills to businesspersons, bill-discounting, providing loans to importers-exporters, paying bills via mail and telegrams are also arranged. In some cases, exchanging goods through banks, purchasing foreign currency and debit-credit of buyers and sellers are also solved. By performing these activities commercial banks play a vital role in trade.

Technology in Banking Programmes

5. Money transfer

Banks transfer money safely and quickly from one place to another place on the demand of clients. The media of sending money are cheques, bank drafts, postal orders, travelers' cheques, mail transfers and telegrams, etc.

6. Remittance

Commercial banks provide proper services, collecting foreign currency for the people who are working abroad and handing it to the local receivers as soon as possible.

7. Increase savings

Commercial banks collect small savings which are spread throughout the country at different places and accumulate these as deposits. Banks help to make capital to the business and production sectors, lending the amassed money. Thus commercial banks increase savings of the country and at the same time accelerate the development of economy.

Besides these, commercial banks do the following activities:

a. Store safely the valuable things of people, for example, deed copies and valuable ornaments, etc. in the locker.

b. Help people to buy and sell shares, debentures of different companies and
c. public bonds.

Perform the task of a trustee by looking after the properties, arranging to
d. collect and give taxes for the properties.

e. Provide income certificates for the clients and make it secret.

Collect and pay cheques, exchange bills, house rents, income taxes, insurance premiums and electric bills, etc. as a representative of the clients.

By completing the above tasks commercial banks play a vital role in the economic development.

Task: How does a commercial bank accelerate the economic development of a country? Explain.

7.4 Rules of opening and maintaining bank account

Sujon goes to deposit one part of his earning money to the branch of Sonali Bank situated in his upazila town. One employer of the Sonali Bank Mr. Masud helps him to open an account. At first Mr. Masud tells Sujon about the three types of account which are (1) current account, (2) savings account and (3) fixed deposit. He says that the rules are almost the same for opening all the accounts. Except Grameen Bank, all the banks follow almost the same rules and regulations. Sujon decides to open a savings account. At first he collects a form from the branch and puts the necessary information in it.

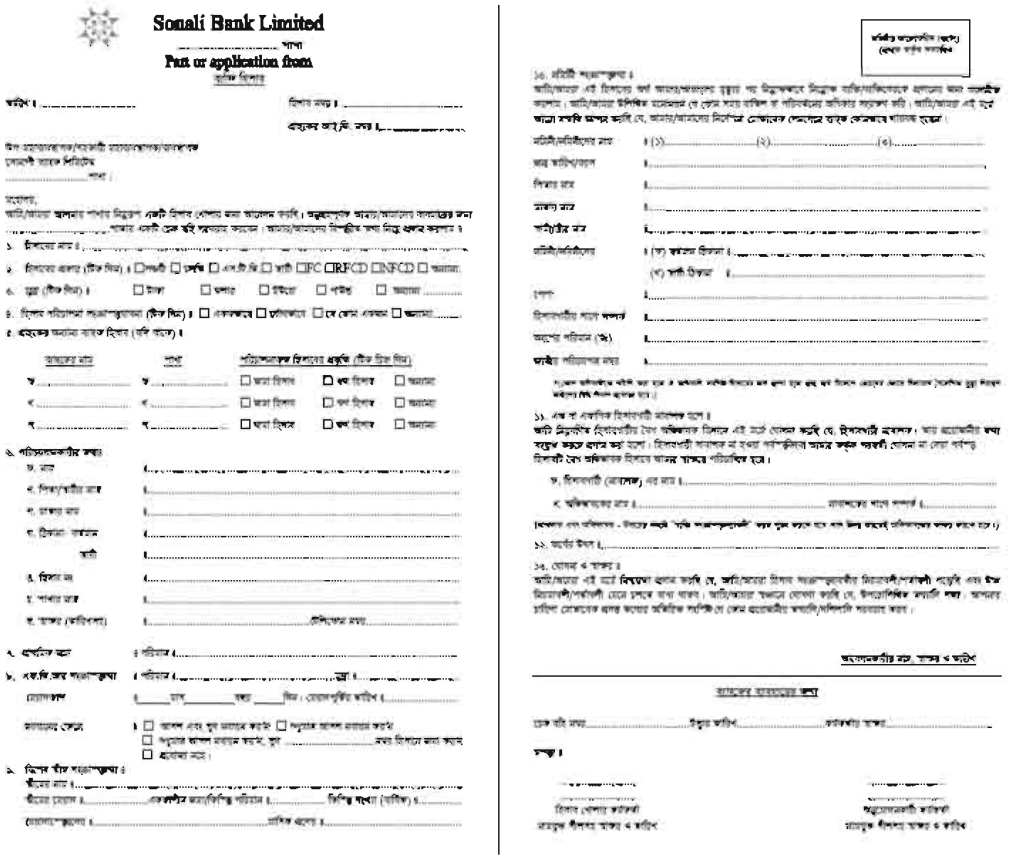
According to the rules of the Bank he (applicant) has to take Sayem's signature for identifying himself. Because Sayem, who is known to Sujon, has an account in that bank. Sayem is called as an identifier. Besides, Sujon selects his wife as a nominee and puts her information in the form. A nominee is a person selected by the depositor, who in the absence of or after the death of the depositor will be the owner of the deposited money. Sujon attaches the passport-size attested photos, and photocopies of the national identity cards of his own and of his wife to the filled-out form. He gives it to Mr. Masud. Then Mr. Masud tells him to deposit minimum 500 tk (this amount may be less or more and varies at different banks). According to the bank rules for opening an account within some

time, Mr. Masud gives an account number and a cheque book and a deposit book to Sujon. Subsequently, using this account number Sujon can deposit cash, cheques, bank drafts by the deposit book (moreover using online system money can be deposited to the account number from inside as well as outside of the country). Deposited money can be drawn by cheque and from ATM booth (where ATM booth is available).

Nowadays computer and the internet are used in almost all the banks. So, depositors can collect the list of the dates and amounts of the drawings and deposited money (even can close their account if they wish). According to bank rules, depositors can complete all activities about the transaction by using the internet at present.

Like Sujon everybody can open any kind of bank account and maintain it by depositing and drawing money according to their ability.

Task: Make a list of the continuous process of opening and maintaining a bank account.



Sonali Bank Limited

Part of Application for opening a Bank Account from

7.5 Central Bank

Central Bank, situated at the top of the banking system is such an institution that controls the whole banking system and works as a guardian of money market. Being under the government ownership and control, it works for circulating notes and coins, controlling loans, preserving the standard of currency, creating and maintaining money market. It also works as currency advisor and banker of the government. Its main characteristic is that it is the most powerful economic institution of the government. So its main aim is not earning profit rather preserving economic balance and the highest development and welfare of the country.

Central bank is the national institution. There is one central bank in each and every independent country. For example, Bangladesh Bank is the central bank of Bangladesh, Reserve Bank of India is for India, Federal Reserve System is for the USA, Bank of England is for England.

Building of the Bank of England

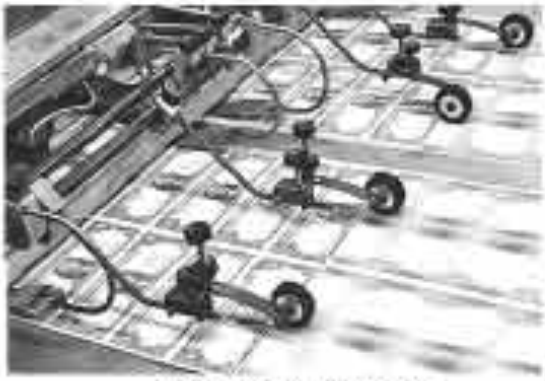
Federal Reserve Bank Building

The functions of Central Bank

The Central bank performs different types of important tasks as the guardian and controller of money market. The main functions of the central bank are:

1. Circulation of note and currency

In some countries only central bank circulates notes and currency. This bank circulates notes as per the needs. Earlier, according to the law, gold, silver or foreign currency had to be deposited. At the present time, the supply of the home currency and its controlling of the price are dependent on the principles of the central bank in the most cases.



Printing of paper Money

2. Bank of Government

The central bank deposits the revenue of the government from the different sectors and pays the money to different sectors according to the direction of the government. During the time of monitory crisis, it provides long and short term loans to the government. It works as a representative of the government, maintaining the communication with the international economic institution. It plays a vital role in giving information and advice to the economic activities and deciding principles of the government.

3. Bank of other banks

Central bank authorizes licenses for new banks and their (banks) branches. It provides necessary directions and advice to the enlisted banks to be administered properly. According to the banking law, the enlisted banks are to preserve a certain amount of their deposits in the central bank. In case of necessity the enlisted banks can take a loan from this deposited fund. In our country, the commercial banks are to deposit 5% of their current and fixed deposits according to the banking law of Bangladesh.

4. Controlling loans

Both paucity and excess of loan are counterproductive for the economic development of a country, because the loans provided by the commercial banks are included in the integral stock, which influences the price level and the value of money. Money inflation occurs in country due to excess loan. Money deflation occurs in a country due to the scarcity of loan. Central bank takes different measures to control the capacity of loan disbursement of the scheduled banks for those problems.

5. The last money lender

The enlisted banks go for the loan from the central bank when they fail to manage loans from other sources. Central bank lends money to the jeopardized listed commercial banks according to the ratio of their deposits and bonds. For this, the central bank is called the last money lender.

6. Determining and controlling exchange rate

Central bank determines and controls the exchange rate of the currency of a country in relation to the foreign currencies to bring stability and balance in the

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foreign transactions such as controlling the exchange rate of dollar and euro against taka. For the convenience of business, central bank purchases and sells foreign currency and gold on behalf of the government to keep the exchange rate stable.

7. Clearing house

The commercial banks transact cheques, bank drafts, pay orders among themselves. Subsequently, one bank is either a debtor or a creditor to the other and the central bank preserves this record. This kind of debit or credit is paid or cleared from the fund that the enlisted commercial banks deposit in the central bank. Thus, the central bank functions as a clearing house for the commercials banks.

Automatic Clearance House

Moreover, the central bank does the following functions:

a) Provides training to develop the standard of the involved employees in the enlisted commercial banks.

b) After a certain period of time, looks into the economic activities of enlisted commercial banks to observe whether these activities are going properly or not.

c) Passes and implements various laws and principles for the betterment of the mass and to develop the banking system.

d) Helps to found branches of commercial banks both at home and abroad.

e) Conducts research, collects and preserves different economic records for the convenience of the mass and for drawing up the official economic policy.

f) Takes measures for the development of various aspects, such as agriculture, industry, services (business, education, health).

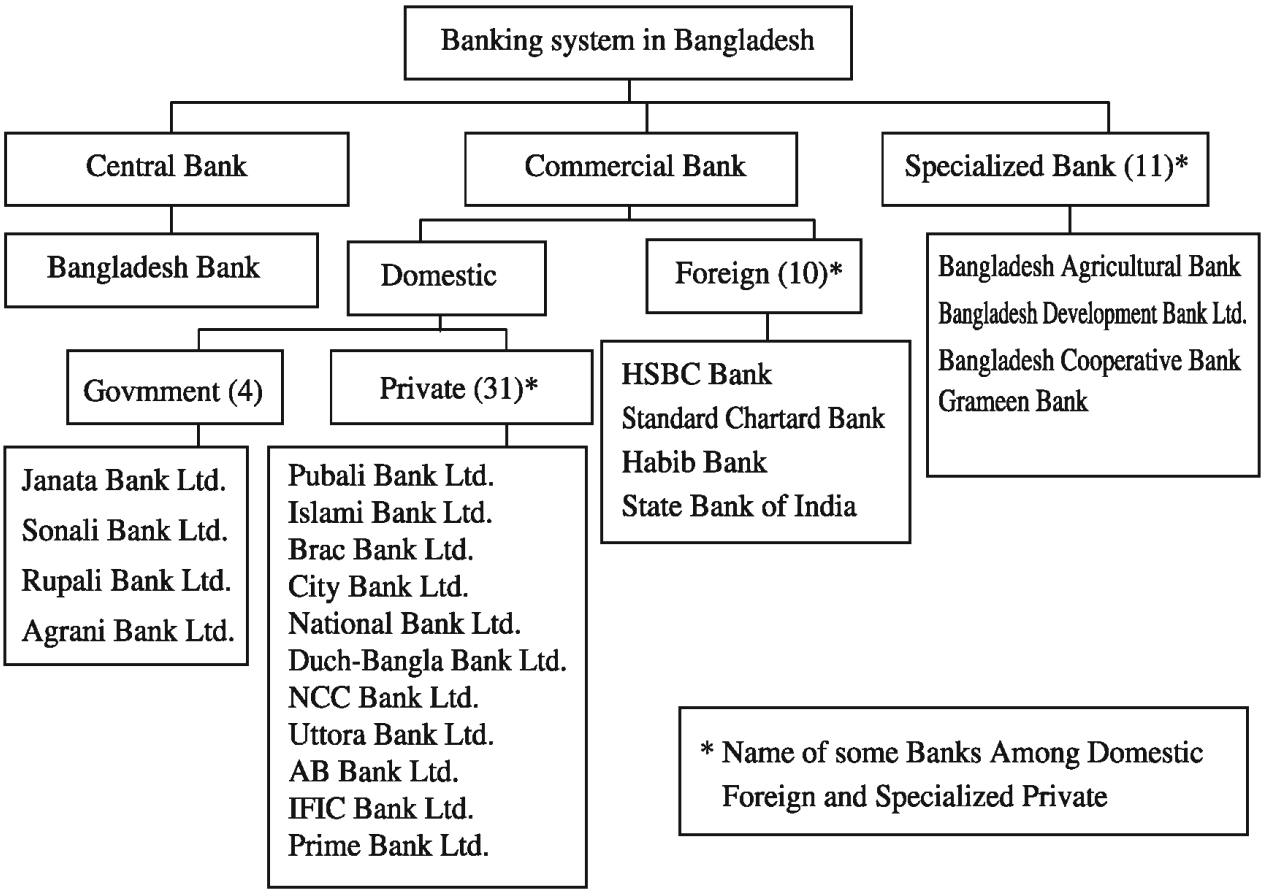
Thus, the central bank contributes a lot to the entire socio-economic condition preserving the stability in the economy.

Task: Central Bank can preserve the economic stability of a country. Elucidate.

7.6 Banking System in Bangladesh

In our country, Bangladesh Bank acts as the official bank (bank of the government) and the guardian of the monetary institutions. Commercial banks are administered to take and preserve deposits from people and to lend money in the necessary areas to make profits. On the other hand, specialized organizations are directed for developing special areas and reducing poverty.

Chart of the banking system in Bangladesh:



7.7 Role of Bangladesh Bank in Agricultural Development, Industrialization and Self-Entrepreneurship

In this regard, the contributions of some banks are discussed below:

Bangladesh Bank

Monogram (Bangladesh Bank)

The name of the central bank of Bangladesh is Bangladesh Bank. Bangladesh Bank was established after the independence with the "Bangladesh Bank Ordinance 1972" certified by the then president. Since then this bank has been a leading currency system in the country. It is noteworthy that at its outset it possessed all the properties the of State Bank of Pakistan. Leading the economic and loan systems to the right direction and maintaining stable financial conditions through the agricultural development, industrialization, and building scope of self-reliant employment of the country, Bangladesh Bank contributes to the overall economic development and welfare of the people of the country in the follwing way:

Bangladesh Bank lends loan on easy terms to the organizations that provide agricultural loans. Acting directly, Bangladesh Bank conducts research and prepares statistics for the development of agriculture.

For the sake of prompt industrialization in the country, Bangladesh Bank lends money to the organizations that supply capital to the industrial organizations. It also provides entrepreneurship encouraging loans.

In exchange for debt instrument, the commercial banks carry out some important tasks such as money lending, founding new banks, founding branches of commercial and agricultural banks in undeveloped areas, ensuring the stock of loan to facilitate loaning. In some special cases, the bank, of its own accord, creates working opportunities for the unemployed young by providing loans on easy terms.

Task: As guardian of monetary system, Bangladesh Bank plays an important role in the overall development of Bangladesh. Elucidate.

Commercial Banks

A commercial bank is one of the main participants that play a significant role in the extension and development of business, development of agriculture and industrialization of the country. On the basis of ownership, the commercial banks can be categorized into two types:

a) Governmental
b) Non-governmental

Commercial Bank in Agriculture & Industrial Sector

The contributions of the commercial banks are described below:

Agriculture is an important sector in Bangladesh. So the economic development of Bangladesh largely depends on the development of agriculture. The majority of the farmers of this country are poor. They need sufficient agriculture loan to carry out farming activities. For the development of agriculture, the commercial banks take active part in loan-sanctioning activities at different times declared by the government. The commercial banks run different loan sanctioning programs for promoting food production, standard seeds, fertilizers, pesticides, deep tube wells and less-deep tube wells for irrigation and for establishing cottage industries. At present, according to Bangladesh Bank, farmers get the facility of opening bank accounts giving only Tk 10 as deposit. As a result, the data collection of all the farmers of Bangladesh becomes easier within a short time.

The commercial banks take the scattered individual savings as deposit from different parts of the country. From this, the bank provides loans for the construction and extension of small, medium and large scale industries. The commercial banks provide enough loans under easy conditions for purchasing raw materials for industry and modern machinery. Besides, the bank assists in developing mills and factories, purchasing the shares of the new companies.

Commercial banks help in creating employment opportunity. At present, these banks have started to provide loans against individual security for purchasing rickshaws, vans, opening grocery shops, rice mills, wheat mills, etc. It is hoped that this will create employment opportunity for many people.

Task: Commercial banks are a powerful partner in the economic development of a country. Exucidate.

Bangladesh Krishi Bank

Bangladesh Krishi Bank has been established for promoting the dynamism of agriculture, attaining self-reliance in agriculture and for the overall development of agriculture. This bank has been established after the independence of the country, according to Ordinance 1973 with the assets and liabilities of Pakistan Krishi Bank. It is a state-owned and semi autonomous institution. The role of Bangladesh Krishi Bank is discussed below:

Bangladesh Krishi Bank provides small, medium and large scale loans for promoting the production of agriculture and sectors related to agriculture.

a. The majority of the farmers of our country are poor. So this bank provides short-term loan for fulfilling the little requirements of the farmers, for example, purchasing fertilizers, seeds, pesticides, ploughing land, weed-out, threshing crops, harvest, etc. Generally, this loan is to be paid within 18 months.

b. This bank provides medium-scale loans for leveling land, setting up semi-deep tube wells, for buying cattle for ploughing land and purchasing light agricultural machinery. Generally, this loan is to be paid from 18 months to 5 years.

c. Krishi Bank provides long-term loans for purchasing land, heavy machinery, (e.g. tractors, harvesters, etc.), setting up deep tube wells, constructing warehouses, constructing coldstorage, digging canals for irrigation, developing tea lands etc. This loan is to be paid from 5 years to 20 years.

This bank provides financial and technical assistance for establishing agriculture based small and cottage industries. This bank also provides loans for raising poultry, setting up sericulture, and pisciculture and helping the unemployed youth get the facility of self-employment.

Task: Modernization of agriculture is possible through the agriculture loan of Bangladesh Krishi Bank. Explain.

Bangladesh Development Bank Limited

According to the decision of the government, the Vendors Agreement was signed between the government and the Board of Directors of Bangladesh Development Bank Limited on 31st December, 2009. Thus the two institutions– Bangladsh Shilpo Bank and Bangladesh Shilporin Songstha– are unified as Bangladesh Development Bank. So the assets, liabilities and workforce of these two closed institutions have been handed over to the new institution. The role of this bank is discussed below:

Generally this bank provides loan for the development or extension of industries related to our country, for example. jute industry, leather industry, sugar industry, fertilizer industry, etc. This bank gives priority to agriculture based industry of the rural areas which is helpful for both production and development of agriculture.

This bank provides long-term loans for introducing new industry, extension and modernization of old industry in both public and private sectors. The maximum timeline of repaying the loan of this bank is 20 years. It also provides short term loan for the necessity of mills, factories and industries. It supplies entrepreneurs with free technical counseling and industrialization-related research, statistics and information.

This bank provides different term-based loans in small and medium scale industries with the aim of attaining self-reliance, promoting production and employment. It gives important counseling and assistance in establishing small-scale industry to make women self-dependent. It gives investment facilities and formulates the blueprint of industrial activities so that business enterprises are taken privately.

Task: Write down the role of Bangladesh Development Bank Limited in production and employment.

Grameen Bank

Grameen Bank is a specialized financial institution, which has been established with the aim of providing banking service to the landless, helpless males and females, and the owners of less amount of land in the villages. This bank provides micro-credit to the general people for production activities. Grameen Bank first emerged in 1983 as a specialized financial institution. The role of this bank is discussed below:

This bank gives loans to poor, landless and helpless farmers under easy conditions and without any security. For the development of agriculture, it provides loans in the sectors of vegetable cultivation, raising cows, pisciculture, poultry farming, etc. As this bank gives loans under easy conditions, the farmers need not take loans from local rich people under hard conditions with a high rate of interest.

Grameen Bank provides loans as well as supplies materials and required information to make the deprived section of the country attached to local small scale and cottage industries, for example, crafts of bamboo and cane, making biri, soap, cloths, sweetmeats, etc. Palliphone facility has been launched with the technical support of Grameen Phone to take the facility of information technology to the people of remote areas.

Small and cottage Industry of Grameen Bank

Grameen bank is the bank which is directed to create employment opportunities and organize the unemployed deprived group under institutional structure. This bank provides the beggars the opportunity of self-employment giving interest free loans. It encourages women for job and helps them in flourishing their leadership qualities. It gives Palliphone to the poor and helpless women as loan. Rehabilitation for women is attempted after repaying the loan from its income. Dividend is provided to the poor owners from its profit every year.

Task: The role of Grameen Bank in changing the fate of deprived people is undeniable. Explain.

Cooperative Bank

Cooperative Bank is the bank which is formed and directed according to the principles of cooperation. The objective of this bank is to provide loans with little interest on the basis of mutual cooperation. Bangladesh Cooperative Bank Limited is run with the joint ownership of the government and the cooperative section of the country. The cooperative institutions have 86% and the government has 14% ownership of the share of this bank. The role of cooperative bank is discussed below:

The bank provides agriculture loan to the members of cooperative society with the aim of alleviating poverty, promoting food production, etc. The sectors of loan are: agriculture, land, land development, Aaush, Aamon, Boro cultivation, cultivation of the crops and vegetables of winter season, different agricultural instruments, seeds, fertilizers, pesticides, irrigation machines, tractors, etc. There are three types of agriculture loan: short term for 6 months, medium term for 2 years and long term for 5 years.

This bank provides finance to agriculture based industries, which are organized on the basis of cooperation and in construction industries. This bank undertakes microcredit activities for the employment of the rural young males and females. The cooperative bank is the partner of the project named "Akti Bari Akti Khamar" undertaken by the government. It also provides finance for employment in the sectors of pisciculture, raising animals, poultry farming, processing and preservation of produced goods, etc. Thus this bank plays an important role in both reducing unemployment and alleviating poverty.

Task: Explain the role of Bangladesh Cooperative Bank in attaining self-reliance of the cooperative members.

Exercise

Short Questions

1. What do you mean by money?
2. What do you mean by commercial bank?
3. What do you mean by clearing house?

Descriptive Questions

1. Describe the functions of money.
2. Elucidate the functions of a commercial bank.
3. State the tasks of central bank.
4. Mention the contributions of "Krishi Bank" in the development of the economy of Bangladesh.

Multiple-Choice Questions

1) Which is the prime and preliminary task of a commercial bank?

a. lending money
b. taking deposits
c. transferring money
d. constructing the means of exchange

2) Which coin can be transacted at any amount?

a. coin of TK. 2
b. Note of TK. 2
c. coin of TK. 5
d. Note of TK. 5

Read the following passage and answer questions 3 and 4.

Arif deposits his saved money in an organization. At the end of the year, he withdraws his deposited money with some additional money.

3. What is the name of the organization where Arif conducts his transaction?

a. Bangladesh Bank
b. Shomobai Bank
c. Sonali Bank
d. Grameen Bank

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4. The contribution of this institution to the economy of the country is

   i. raising capital.

   ii. preserving the standard of coin.

   iii. economic development.

Which of the following is correct?

a. i
b. i and ii
c. i and iii
d. i, ii and iii

Creative Questions

1. Ratna is appointed in a financial institution. Her institution cannot provide loan but acts as consultant for other financial institutions in the case of loan sanctioning. On the other hand, her friend is engaged in another financial institution. It deposits the savings of people as well as gives extra amount against the deposits.

   a. What is the barter system?
   b. Describe the function of money as the medium of savings.
   c. Explain the nature of Ratna's institution.
   d. Analyze the difference between Ratna's institution and her friend's.

2. Harun's wife badly needs a sari. But he has nothing but a goat. Harun took the goat to a weaver and the weaver wants the goat in exchange for the sari. But Harun does not agree to get a sari in exchange for a goat. This problem is solved when a material is discovered and acceptable to everyone.

   a. What is legal money?
   b. What is meant by Clearing House?
   c. Explain the reason of Harun's unwillingness to buy the sari from the weaver.
   d. Analyze the role of the material acceptable to everyone in the light of your textbook.

Chapter 8
The Economy of Bangladesh

Ratan is a rich farmer. For a few years he has been using the modem technology in farming which has increased the production. After spending the money in household expenditures he saves the excess money. Last year he established a small readymade garments factory which is conducted by his wife Jayanti. Lots of female workers of his village work there. They have enrolled their only son Roni in a good quality school. Roni is given treatment at the health complex of the union according to the doctor's prescription when he becomes sick.

From the above discussion we get an overview of a certain sectors of Bangladesh economy, such as agriculture, industry and service.

After studying this chapter, we will be able to

- explain the main characteristics of Bangladeshi economy.
- explain the main sectors (agriculture, industry and service) of Bangladeshi economy.
- analyze the comparative importance of the main sectors (agriculture, industry and service) of Bangladeshi economy.
- identify the dependence of agriculture and manufacturing sectors on one another.
- discuss sectorwise analysis of the data of the economy and use it mathematically.
- discuss the importance of various sectors through drawing graphs.

8.1 Characteristics of Bangladeshi Economy

Bangladesh was suppressed and oppressed by the 200-year British reign and 24 years of Pakistani rule. As a result, the development of Bangladesh economy did not take place to a great extent. Moreover, the economic infrastructure was damaged due to the long war of nine months in 1971. After the four decades of independence there has been significant development in the economy of Bangladesh. But it is still a developing country with lower-middle per capita income.

The main characteristics of Bangladeshi economy is given below:

1. Importance of Agriculture

Agriculture

Agriculture is an important sector of Bangladesh economy. But the production capacity in agriculture of our country is very low, compared with that of the developed countries due to the primitive methods, lack of good quality seeds, irrigation and agricultural loans, and for natural calamities. But the situation is improving day by day. Now there is more availability of good quality seeds, fertilizers, pesticides and irrigation. Thus the production is also increasing. The share of agricultural sector (crops, fisheries, animal resource and forestry) in the GDP for the fiscal year 2015-16 was almost 15.35%. But 45.10% of the total labor force is involved in agriculture (MES, 2010, BBS).

2. Projects for Industrialization

Labours working in factory

The development process in industrialization in Bangladesh is very slow. So, it is necessary to adopt a new policy for industrialization to increase the rate of development. National policy was declared for this purpose in the year 2010. The aim of this policy is to increase the employment, participation of women in industrialization and reduce poverty. To achieve these goals the government has taken some steps, like to

reduce barriers on investment, to create tax free investment, to encourage private investment, to ensure free flow of capital, to increase foreign investment, to create markets abroad, and establish labour intensive industries. The benefits from these projects can be seen now. In the fiscal year 2015-16, the share of industry sector was 31.54%. But 20.70% of the total labour force is involved in this sector (LFS, 2013, BBS).

3. Rise in Per Capita Income

The per capita income in Bangladesh is low, compared to that of the developed countries as the production of agriculture and industry is lower in this country, population is high and opportunities of employment are low. In 2017, the current rate of the per capita income was 1602 US dollars and per capita GDP was 1538 US dollars. Though the rate is slow but our per capita income is increasing.

4. Rise in Standard of Living

Due to low per capita income 31.50% people were living below the poverty line in 2010. Though the progress is slow but the standard of living is increasing for which the average life expectancy has increased to 70.9 years in 2016. 97.90% people drink pure drinking water and the literacy rate is (age 7+) 63.6%.

5. Rise in Supply of Capital for Investment

Our savings are low due to low per capita income. Thus the investment or accumulation of capital is also low. Currently the government has adopted many encouraging policies to attract investors. For this reason domestic and foreign investment is increasing slowly. In the fiscal year 2016-17 the total investment was 30.27% of the GDP. Increase in investment increases the production of our agriculture and industry sectors. It helps to reduce poverty in our country.

6. Food Deficiency and Malnutrition

Though it is an agriculture-based country, it has been suffering from food deficiency and malnutrition for a long time. So, the government has given highest importance to agriculture sector in order to make Bangladesh self-sufficient in food production. For this reason, the use of good quality seeds,

fertilizers and technology has increased in the production over the past few years. In the fiscal year 2015-16 a total of 388.17 lakh metric ton food grain was produced.

7. Decrease in Population Growth

Bangladesh is an over-populated country. The total population of this country is 14 crore 97 lakh 72 thousand 364 (according to the estimate of the year 2011). The population density is 1015 people per square feet and the population growth is 1.37%, which was 1.48% in 2001. Though population is decreasing by degrees, it is a very small country in area and thus it is the world's 9th most populated country. In 2017, our population is approximately 16 crores and the total area is about 1,47,570 square kilometers. Accordingly, the present density of population is 1077 persons living in per square kilometer.

8. Unemployment

In our country savings are low compared with population. Thus the accumulation of capital is low. Unemployment is increasing as there is scarcity of capital which reduces employment opportunity in agriculture and industry sectors.

Dhaka EPZ

But domestic and foreign investment is increasing in Export Processing Zone (EPZ). To attract the foreign investment, various encouraging policies have been adopted which are increasing foreign investment and the economy is in progress. Thus we can hope that the unemployment problem will be reduced in near future. (25 lakh people of our total population were unemployed in 2014-15).

9. Increase in the Use of Natural and Human Resources

Natural resources are the basic elements in socio-economic development and in raising the standard of living. Currently, discovery and the use of these natural resources have increased. The combined contribution (approximate) of natural gases, unrefined petroleum and coal and other mineral resources in GDP was

Coal Mine

1.77% in the fiscal year 2015-16. 75% use of the fuel comes from natural gases. Till now a total of 26 gas fields have been discovered from which 20 gas fields are being used to extract gases through 101 wells. Gas is mostly used in the production of electricity. To ensure the fuel security the refining capacity of Eastern Refinery is being increased and SPM (Single Point Mooring) project has started to deport refined and unrefined fuel oil in the deep sea. The total storage of our 5 coal mines (Khalashpir of Rangpur, Barapukuria of Dinajpur, Fulbaria and Dighipara and Jamalganj ofBogra) is almost 2700 million tons. 65% of the extracted coal is used in Barapukuria power station to produce electricity.

Various public and private projects are in progress for the development of human resources. Among these, family planning, women and children, social welfare, youth and sports development, culture, labor and employment, etc. are important.

10. Deficit in Foreign Trade

To meet the various needs and development of our mass population we have to spend lots of money to import various products which is much higher than our export earnings. For this reason, there is an imbalance in the trade. Currently our export has increased, thus the trade deficit is decreasing. Besides, there has been a surplus after removing deficit because of the foreign remittance.

11. Dependence on Foreign Aid

It is not possible to collect all the money we require for the economic development from within the country. So, we have to depend on foreign aids. But the good thing is, the dependency on foreign aid is decreasing. Because of

inadequacy, uncertainty and lengthy process of these aids, our development process is hampered. So, the dependence on internal sources is increasing which can be identified as a positive move forward.

12. Development of Economic and Social Infrastructure

To increase the production, components of production and proper distribution of products in the market and to maintain the stability at price level, the economic infrastructure such as roads, railways and naval system, electricity and telecommunication system plays a vital role. The government has taken various steps to improve the country's infrastructure. Constructing Padma Bridge, 26 kilometer long elevated expressway to reduce traffic jam, safe naval system, development of electricity sector and setting up modern telecommunication system through the establishment of second submarine cable are some important projects under taken by the government. Education, training, research, public health, cultural development, ethical views play an important role in the development of human resources. Current government has announced education policy 2010 to improve the quality of education. Also to develop public health, a unified program of health, population and nutrition had been under taken.

Padma Bridge

13. Privatization Programmes

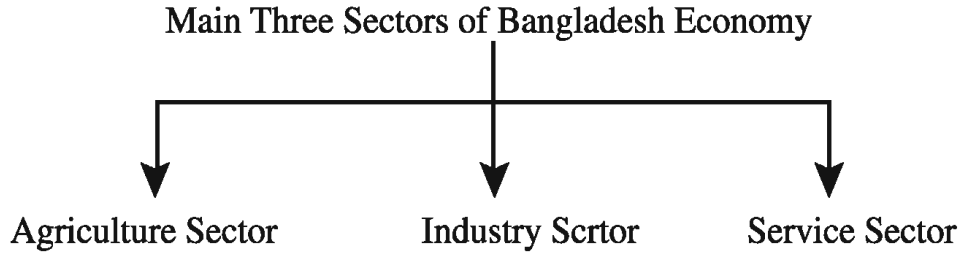
Though ours is a mixed economy, the government has given importance to privatization to maintain a free market economy for the development of our economy in all respects. For this purpose the government has taken various steps. After the establishment of Privatization Board (now Privatization Commission) in 1993, a total of 77 institutions have been privatized till June 2012. Among these 56 institutions were privatized by direct selling and 21 institutions by selling shares.

From the above discussion, we can say that the economic condition of Bangladesh has developed to a large extent in comparison with the past. For economic development, various kinds of projects are being taken and implemented. Through the expansion of education and technology, there is an increase in technologically skilled labor and manufacturer groups. These people play an important role in increasing the production of the country and removing social superstition through self-employment. However, because of the lack of good governance and increasing of inequality of income and resources, the possibility of the development of Bangladesh is being hampered in some sectors.

Task: What steps should be taken, on the basis of current context, for the economic development of Bangladesh?

8.2 Main Sectors of Bangladesh Economy

The branches or sections of an economy of a country carry out economic activities within its own region, and on the basis of their combined contributions an economy is formed. These branches or sections of an economy are called the economic sectors.



Agriculture Sector

Agriculture is the work that involves cultivation, sowing seeds, nurturing of grains-trees, collecting crops and then storing, protecting and marketing these crops. Apart from growing crops agriculture sector also includes fisheries, bee breeding, raising livestock and forestry.

Pisciculture

Livestock

Sundorbans

The introduction of sub-sectors of agriculture sector is given below:

A. Food Grains and Vegetables

Farmers of our country produce *rice, wheat, jute, pulses, sugarcane, tobacco, tea, oilseeds,* etc. among *food grains, and potatoes, bean, gourd, peas, potol, bitter gourd, eggplants,* etc. among vegetables.

B. Animal Resources

In our country poultry, cows, goats, lambs, buffalos, horses, pigeons and other birds are raised for both domestic and business purposes. Meat, milk, eggs, feathers and skins etc. of these animals are included in this sector.

C. Forestry

Only 17% of our country's land is covered with forests, whereas 25% of a country should be covered with forests. In these forests bamboo, cane, shal, shegun, shundori, goran, geowa, gamari, korai, kuchi and keora. trees can be found. We get wood, rubber, glue, shan, oil, candles and honey from these trees.

D. Fish Resources

Various types of fishes and fish products are obtained from the pond, river, haor and ocean. These are divided into two groups, for example: fresh water fish and sea fish. Fresh water fishes are: Ruhi, Chital, Koi, Shing, Magur, etc. and sea fishes are: Rupchanda, Vetki, Loitya, etc. The fishery sector being huge developed recently. The government has given this sector a seperate dignity.

Contribution of agriculture sector to GDP is given below:

The economic growth of Bangladesh economy is dependent on agriculture sector to a great extent. The development of rural economy, food security that is self-sufficiency in food, poverty reduction, raising the standard of living, and increase in employment– all are directly related to the development of agriculture. Thus the government is trying everything for the development of the agriculture sector. For this purpose, the steps are taken for the development and expansion of technologies, ensuring that every single person gets required raw materials for agricultural products, easy loans, agro-insurance and subsidy in agriculture, etc. A total of 75% of our population is directly or indirectly

dependent on agriculture. A total of 381.74 lakh metric tons of food grains was produced in the year 2013-14. A total of 47.5% of the labor force is employed in agriculture. Shan, golpata, straw, bamboo, cane, and wood from agriculture are used as fuel supply, furniture and employment. On the other hand, protein requirement of the people, raw materials for industries and creating the market for industrial products, etc. are playing a vital role in the economic development.

Task: The role of agriculture in the development of the Bangladeshi economy is highly significant. Explain.

The contribution of agriculture sector/sub-sectors in GDP are shown below:

Sector/Sub-sector	2012-2013 (%)	2015-2016 (%)
1. Agriculture and Forestry	13.09	11.70
a. Food Grains and Vegetables	9.49	8.35
b. Live stock	1.84	1.66
c. Forestry	1.76	1.69
2. Fish Resources	3.68	3.65

Thus, in the fiscal years 2012-13 and 2015-16 the contribution of agriculture sector (1+2) in the GDP was 16.77% and 15.35% respectively. Main export products of the agriculture sector are frozen foods, raw jute, jute-products and tea. The growth of overall rate agriculture sector of our country is given below:

Sector/Sub-sector	2012-2013 (%)	2014-2015 (%)	2015-2016 (%)
1. Agriculture and Forestry	1.47	2.45	1.79
a. Food Grains and Vegetable	0.59	1.83	0.88
b. Live stock	2.74	3.08	3.19
c. Forestry	5.04	5.08	5.12
2. Fish Resources	6.18	6.36	6.11

Task: The importance of agriculture sector is very significant for the economic development of Bangladesh. Explain.

Industry Sector

The conversion of natural resources or raw materials or primary materials into secondary or final goods through certain processes in the factory is called industry.

In calculating the national income of Bangladesh, industry sector includes minerals and mining, manufacturing, electricity, gas and water supply, and construction among the 15 sectors.

Gas Field

Metro Railway

Ship Industry

A short introduction to industry sector is given below:

1. Minerals and mining

The sub-sectors of this sectors are:

a) Natural gases and unrefined oil

b) Other minerals and mining (Coal, Limestone, Chinaclay, Sulfur, Chalk, Silica, Bronze etc.)

2. Industry (manufacturing)

a) Large and Medium Industries: Large and medium industries are separately mentioned below:

Garments industry, sugar industry, fertilizer industry, cement industry, ship industry, jute industry, paper industry, etc. are included in large industries.

Leather industry, readymade garments industry, cigarette industry, plastic industry and hosiery industry are the renowned medium industries of Bangladesh.

b) Small Industry: Small industry is divided into 2 groups as below:

Industries that produce small parts of equipment such as match industry, wooden industry, soap industry, cosmetics industry, vehicle servicing and repairing industry, etc. are included in small industry.

Silk, bamboo, cane, pital (brass) and kasa (white brass), weaving industry and mrit shilpo are renowned cottage industries.

3. Electricity, Gas and Water: The subsectors of this sectors are three and they are: (a) Electricity, (b) Gas and (c) Water

4. Construction Industry: Construction of bridges, roads, personal and business, all types of housing are included here.

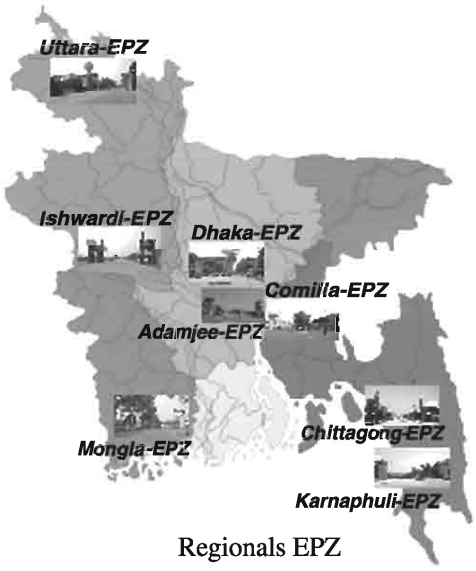
Industry sector is the combination of all four sectors mentioned above.

The contribution of industry sector to the GDP was 29% in the fiscal year 2012-13. For the year 2014-15 it was estimated to be 30.42% and in 2015-16 it was 31.54%.

Overall growth rate GDP of industry sector is listed below:

Sector/Sub-sector	2012-13	2013-2014	2015-2016
1. Mineral resources	9.35	9.60	12.18
2. Industry (manufacturing)	10.31	10.31	11.69
3. Electricity, gas and water resources	8.99	6.22	13.33
4. Construction	8.04	8.60	8.56

Bangladesh has established Export Processing Zone (EPZ) for socio-economic development, poverty reduction, and quick expansion of industry sector. It has attracted many domestic and foreign investors who have helped the expansion of industry sector.



Regionals EPZ

Till December 2012 a total of 412 industrial organisations are involved in production in 8 EPZs [Chittagong, Dhaka, Mongla, Comilla, Ishwardi, Uttara (Nilfamary), Adamji and Karnafuli]. A total of 350263 people are employed here. It has exported products worth 4210.80 US dollar.

The government has announced industrial policy 2010 to speed up the progress in industrial sector. The main purpose of this policy is to create employment, involve women in the main stream of industrialization, reduce poverty and to expand small and cottage industries. According to vision 2021, the industry sector will emerge as a strong sector within year 2021 where its contribution to the total GDP will be 40% and contribution to the industrial employment will be 25%.

In agriculture, industry, transport, household, service sectors, demands for electricity, gas, oil and other natural resources are increasing day by day. For this reason the government has taken various long-term plans in this sector. The government has taken steps to include extra 14,773 megawatt electricity to the national grid by the year 2010-16. The government is determined to ensure electricity for everyone in the country within 2021. In the total use of our fuel, 75% comes from the natural gases. Gas is mostly used in the production of electricity. Gas is used as the raw material for the production of chemical fertilizers; and factories, transport and households use it as fuel.

Limestone is used in the production of cement, glass, soap, bleaching powder etc; chinaclay is used in the production of crockery and sanitary products;

silica in colors and chemical products; sulfur in gunpowder, matches and refining oil. It is due to increase in investment for infrastructural development, growth rate has increased in construction sector.

From the above discussion, it can be said that with development of overall industry sector, it is possible to increase national income, and per capita income, to improve standard of living, to reduce trade deficit and dependency on others.

Task: The development of our country is possible through the overall development of the industry sector. Explain.

Service Sector

The non-material services that are produced through economic activities i.e. those activities that are not visible as converted raw materials but they satisfy human demand having an exchange value are called Sevice. Service sector provides a service, which is not an actual product and could not be held in our hand but it can satisfy our needs and it also has an exchange value.

Financial Institution

Transport system

In Bangladesh, wholesale and retail trades, hotels and restaurants, transport, communication, banks, insurance and other financial institutions, housing, public administration and defense, education, health and social service, community, social and personal services– all are included in service sector. These services are provided to general people in exchange for money and people buy these to meet their needs. As in other countries, service sector is the single largest sector in our economy. In the fiscal year 2014-15 the contribution of service sector is 53.58%. In 2015-16 it is 53.12%.

The contribution rate of the sub-sectors that are included in the overall service sector to the GDP is given below:

Sector	2012-13	2015-16
1. Wholesale and retail trade	14.08	13.99
2. Hotel and restaurant	0.75	0.75
3. Transport, storage and communication	11.43	11.31
4. Financial intermediation	3.38	3.39
5. Real estate, renting and other business activities	6.81	6.64
6. Public administration and defense	3.49	3.63
7. Education	2.29	2.39
8. Health and social work	1.83	1.84
9. Community, social and personal services	9.52	9.18

From the above list it can be seen that wholesale and retail trade has the highest contribution and the second highest is transport, storage and communication sector and sub-sectors of this sector are given below:

a) Land Transport

It includes roads and railway system. According to the estimate of 2016 the road includes national highway of 3813 kilometer, regional roads of 4247 kilometer and 13242 kilometer long district roads. The length of railway is 2877 kilometer (broad gauge 659 km, dual gauge 375 km and meter gauge 1843 km).

b) Water Transport

Our main sea port is Chittagong. 97% of our export-import is conducted through this port and our second sea port is Mongla. Our internal naval transport corporation gives services to people through 188 water vehicles that include ferry service, passenger service, cargo service and ship repairing service, etc.

c) Air Transport

The authority of private airways is covering 3 international and 7 internal airports. There are also 2 STOL (Short Take Off and Landing) posts in use.

d) Post and Telecommunication

Bangladesh Telecommunication Company Limited (BTCL) is carrying out various projects for modernization, development and expansion of our telecommunication system. The number of customers has increased after the establishment of Bangladesh Telecommunication Regulatory Commission (BTRC) since 2002. Number of customers has exceeded 12.8 crore in January 2017.

Postal department is at service through 9,886 post offices over the country. From this sub-sector the growth rate has been 6.81% for the fiscal year 2015-16.

Sector-wise growth rate of overall service sector in the GDP is given below:

Sector	2011-12	2014-15	2015-16
1. Wholesale and retail trade	6.70	6.35	6.50
2. Hotel and restaurant	6.39	6.83	6.98
3. Transport, storage and communication	9.15	5.95	6.08
4. Financial intermediation	14.76	7.78	7.74
5. Real estate, renting and other business activities	3.92	4.40	4.47
6. Public administration and defense	7.53	9.82	11.43
7. Education	7.75	8.01	11.71
8. Health and social work	3.81	5.18	7.54
9. Community, social and personal services	3.25	3.28	3.30

Government has taken different initiatives for the development of this sector. Service sector plays an important role in raising the living standard of people, public protection, marketing of goods, and in the development of healthy trained and educated human resource and self-employment.

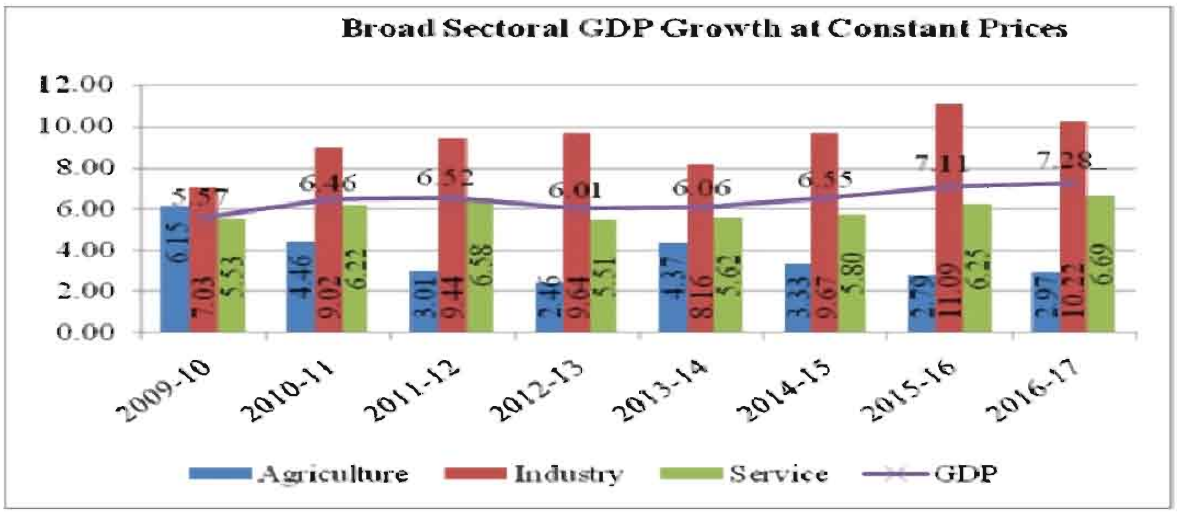
Task: What steps do you think should be taken for the development of service sector in Bangladesh?

8.3 Relative Importance of Various Sectors

Our economy has 15 sectors in the Gross Domestic Product (GDP) on the basis of production. These sectors are divided into 3 bigger sectors such as agriculture, industry and service sectors. In the context of Bangladesh agriculture is the main component of growth and economic development as our economic infrastructure evolves around agriculture. Ensuring food security, poverty reduction, improving the standard of living, increase in employment of this huge population– all are directly related to the progress of agriculture. But dependency on agriculture is not a sign of stable economy, because there is always an uncertainty in the production every year due to flood, cyclone, tsunami, drought, many other natural calamities. Therefore, it is required to establish industry based economy facing the challenges of free market and globalization. Because modernization of agriculture, efficient use of natural resources, less dependency on foreign countries, earning more foreign currencies and developing a strong defense system– all are possible through industrialization. Along with the development of agriculture and industry through the various projects of overall service sectors, for example, generating educated and trained human resources, developing women and children, youth development, sports development, infrastructure development, the development of information technology, achievement of vision 2021 is possible which will help build an economically stronger Sonar Bangla.

To fulfill this purpose and to achieve sustainable growth in agriculture, the government has taken various steps such as granting more subsidies, ensuring the supply of continuous electricity for irrigation, increasing the flow of loans, inventing new seeds that can cope with unfavorable weather and saline water and promoting industry-based agriculture. Production in industry has increased due to the increase in investment in electricity and other infrastructural sectors. Almost all the sectors under overall service sector maintain some growth rate, taking the growth rate of this sector to a satisfactory level.

The growth rate of GDP is shown below through the bar diagram:



The periodical growth of the years 2014-15, 2015-16 and 2016-17 has been presented in the above bar chart. In the bar chart it has been shown that the rate of GDP was 6.55% in the fiscal year 2014-15, 7.11% was in 2015-16 and 7.28% in 2016-17. i.e. though it is slow, but the growth rate of our GDP is increasing.

The main three sectors– agriculture, industry and service– have contributed to the development of GDP. The information of the rate and the GDP has been presented in the above bar chart. The growth rate of the years 2014-15, 2015-16 and 2016-17 in agriculture sector was 3.33%, 2.79% and 2.97% respectively. Similarly the growth rate of the industry sector was 9.67%, 11.09% and 10.22% respectively. The growth rate of the service sector was 5.80%, 6.25% and 6.69% respectively. Therefore, it is seen that the high growth rate based on overall industry sector is leading to the growth rate of our GDP recently.

The relative picture of the growth rate and the three years- 2014-15, 2015-16 and 2016-17 has been presented in the list below:

The sector wise contribution rate to the GDP on the basis of of the fiscal year 2005-06 in percentage:

Overall Sectors	2014-15	2015-16	2016-17
Agriculture	16.01	15.35	14.74
Industry	30.42	31.54	32.42
Service	53.57	53.11	52.84
Total	100	100	100

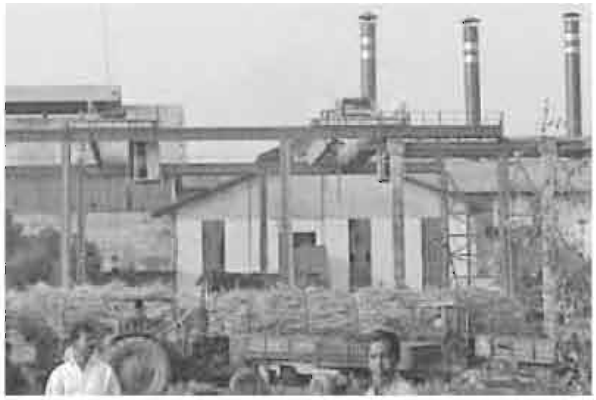
It is understood from the list that in 2016-17 the service sector mainly has contribute to our high GDP about 53%. The contribution of industrial sector is about 32% and agriculture is 15%.

Task: Explain the contribution of agriculture, industry and service sector on the basis of data that are easy to find locally.

8.4 Dependency of Agriculture and Industry Sectors on Each Other

Ramiz is a rich farmer. He produces more rice in his land by using seeds that give high return, irrigation through deep tube wells and using required organic fertilizers. He supplies the rice to the market, which he keeps in the sacks made of jute. Many people buy these to satisfy their food requirement.

From the above, we can say that the industry sector supplies the equipment and fertilizers for the development and modernisation of agriculture. Similarly, raw materials come from agriculture sector for the expansion of industry.



Agriculture Based Industry (Sugar Industry)

Industry Based Agriculture

Dependency of agriculture and industry sectors on one another is discussed below:

Most of our industries are agriculture-based. The main industries of our country are jute, tea, leather, sugar and paper industries and all of these are dependent on agriculture for the supply of raw materials. For this reason, region-based industries have been developed, for example, jute industry in Dhaka and Narayanganj; tea industry in Chittagong and Sylhet; sugar industry in North Bengal. With the expansion of these industries, the production in agriculture will increase due to the increased demand of raw materials and farmers will get proper price for their products. This will increase the income and the standard of living of the farmers. Savings and accumulation of capital will increase as the income of the people will increase and thus more investment will be possible in the industrial sector.

In our country the base of small industries is agriculture. Bamboo and cane produced in agriculture are used as raw materials for the cottage industries. On the other hand, the equipment for cultivation in agriculture, fertilizers, pesticides, medicines, etc are produced in industries. Thus agriculture plays an important role in marketing the industrial products. As the purchasing capacity of the farmers increases, the demand for other industrial products also increases, which helps the expansion of industrial sector. It is possible to achieve self-sufficieny in producing food grains through the modernisation agriculture. The cost of import will be saved and the saved money can be used for the development of industry.

From the above discussion, it can be said that our agriculture and industry sectors are dependent on one another, and they complement each other. Thus the development in both sectors together is necessary for the economic development, self-sufficiency in food and self-reliance of our country.

Task: Identify the areas where agriculture and industry are dependent on each other.

The Source of all information of this chapter: Bangladesh Economic Review 2017.

Exercise

Short Questions

1. What are the characteristics of Bangladeshi economy?
2. What are the sub-sectors of agriculture?
3. Make a list of sub-sectors of agricultures based on examples.

Descriptive Questions

1. Explain the characteristics of Bangladeshi economy.
2. Discuss the relative importance of agriculture, industry and service sectors of Bangladesh economy.
3. Explain the interdependency of agriculture and industrial sectors.

Multiple Choice Questions

1. What percentage of the total labor force is involved in agriculture?
   a. 19.92% b. 30.30%
   c. 43.60% d. 47.50%

2. The purpose of Bangladesh government to announce the Industrial Policy 2010 is to increase
   i. per capita income.
   ii. women's participation in industry.
   iii. investment by increasing tax.

Which of the following is true?

   a. i and ii b. i and iii
   c. ii and iii d. i, ii and iii

Read the following passage and answer question numbers 3 and 4.

Moti lives in a remote area with his family. There is no electricity and gas. Everybody in the family lives on making paper packets.

3. Which sector of industry includes the activity of Moti and his family?
   a. large b. medium
   c. small d. cottage

4. For the development of manufacturers like Moti
   a. loans on easy conditions should be given.
   b. use of foreign goods should be reduced.
   c. training should be provided.

Which of the following is true?

a. i
b. ii
c. iii
d. i, ii and iii

Creative Questions

1. Two sectors of the economy

A. Farmer cutting jute in the field

B. jute made bags

a. What is industry?

b. Why is the rate of capital accumulation low in our country?

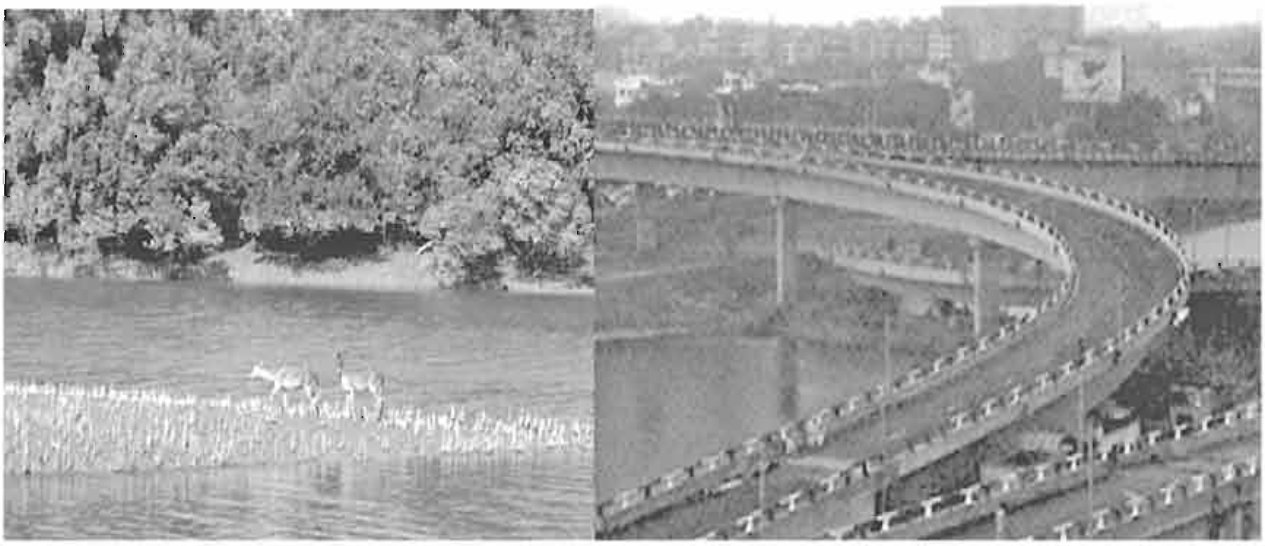
c. How is economic growth dependent on the development of sector 'A'?

d. Sectors 'A' and 'B' complement each other- explain.

Chapter Nine

Important Economic Issues in Bangladesh

Bangladesh is a low middle-income developing country. There lies a huge potential to develop. This development is possible through high growth rate, poverty alleviation, equal distribution, development of human resources and good governance.



After studying this chapter, we will be able to

- explain the relationship between economic growth and development.
- explain the characteristics of developed, less developed and developing countries.
- identify the stages of development of Bangladesh economy.
- make a list of obstacles to economic development of Bangladesh.
- explain the importance of development projects run by Bangladesh government.
- explain the importance of development projects run by Non-government Organizations for national development.
- explain the type, reasons and ways of reducing poverty in Bangladesh.
- analyse the nature of unemployment in Bangladesh and the ways to remove it.
- explain the concept of human resources.
- explain the way in which the population of a nation can become its asset.

9.1 Economic Growth and Development

Though it seems the economic development and economic growth are the same, but they are not. There is a basic difference between these two concepts.

Economic Growth

In a particular time, the rate of increase of the total market value of the produced goods and services of a country is called economic growth. Generally, the annual rate of increase of GDP is known as economic growth. Economic growth can be measured by the rate of increase of per capita income.

Economic Development

Economic development does not mean only economic growth. As a result of economic development, people's per capita income increases also. There occurs qualitative change in economy such as the increase of people's consumption, increase of employment and overall development through the development of technology.

So, for economic growth, only the increase in total national income is enough. And when economic development occurs, it must be understood that there has been a qualitative change in growth along with economic condition. For this we can write, Economic development = Economic growth + Qualitative changes in economy.

Task: Distinguish between growth and development.

9.2 Characteristics of Developed, Least Developed and Developing Countries

Developed Country: The country whose economic development happens which is sustained for a long time is called a developed country. The standard of living of the people of these countries is very high.

Least Developed Country: According to professor Ragnar Nurkse, least developed countries are countries whose capital is less than their human resources and natural resources. The people in these countries lead a poor life.

Developing Country: The countries, where per capita real income is less than that of the developed countries, but where a positive change is happening in development indicators, are called developing countries. The per capita income of these countries are increasing and their standard of living is gradually increasing. They are advancing from low income to middle income and from middle income to high income.

There are different characteristics for developed, least developed and developing countries. Though the characteristics of least developed and developing countries seem to be almost the same, they have different characteristics.

9.2.1 Characteristics of Developed Countries

The characteristics of developed countries are given below:

1. **Land and Natural Resources:** Developed countries are enriched with sufficient natural resources. These countries ensure the proper use and protection of land and natural resources. Developed countries like the United States, Japan, European countries are ruling the modern world through the efficient use and protection of natural resources.

2. **Capital:** In the developed countries the supply of capital is sufficient. In this economy capital is created through savings.

3. **Skilled Manpower:** The requirement of skilled manpower is a must for the economic development of any country. Even if a country is rich in natural resources, capital, etc., it cannot be economically developed if it lacks skilled workforce. Developed countries keep a special eye on the development of skilled workforce. Skilled workforce can be built up through standard education, training and research.

4. **High Average Life Expectancy:** The average number of years the people of developed countries are expected to live is generally more because of advanced facilities of health services.

5. **Technical Knowledge:** The production capacity of the workers in developed countries has increased a lot and the main reason for this increase is the development of technical knowledge. A county that has more technical knowledge is more developed. People in developed countries control nature through improved technical knowledge and get things that are desired from nature.

6. **Political Stability:** Political stability is the prime requirement for the economic development. Economic development is restrained in those countries that do not have political stability. Political stability being prevalent in the developed countries, economic development is possible. inspite of the change of the government in these countries, the economic policy, plan and good governance remain stable.

7. **Developed Infrastructural and Transportation System:** More production and development are possible where transportation systems are more developed because the development of transportation system reduces production cost and increases investment. Thus production increases.

Task: Make a list of the characteristics of economic development in the developed countries.

9.2.2 Characteristics of Least Developed Countries

Most of the countries of Asia, Africa and Latin America are less developed. Most of the people of the world live in these countries. The characteristics of least developed countries are given below:

1. **Less Productive Agricultural Sector:** Most of the people in less developed countries live in the rural areas. They are directly or indirectly related to agricultural production and dependent on agriculture. The production procedure and technologies related to agriculture are primitive.

2. **Agriculture Based Economy:** A big portion of national income of these countries comes from agriculture.

3. **Unemployment:** Since the economy of less developed countries is agriculture based, disguised and seasonal unemployment problems are severely noticed there.

4. **Low Per Capita Income:** Per capita income and savings are low in least developed countries. For this reason, investment and production are also low.

5. **Vicious Cycle of Poverty:** In least developed countries income is low since the production is low. It leads to low savings. Investment is low because savings are low. Thus there is shortage of capital. Here the production decreases. This situation is called the vicious cycle of poverty. Because of this cycle the development process in least developed countries is slower.

6. **High Population:** In most of the least developed countries the population is high and per capita income is low. Food, clothes, shelter, education, transport, treatment and employment cannot be provided properly in least developed countries due to high population.

7. **Use of Land and Natural Resources:** Least developed countries cannot ensure efficient use of land and resources through the development of technologies and methods. Therefore, economic development does not get flow.

8. **Inefficient Communication and Transportation System:** The communication and transportation systems in less developed countries are inefficient. So, there exist the problems of product trans-shipment. Production cost increases. Entrepreneurs are not interested in investment.

9. **Imbalanced Trade:** The least developed countries are not developed in manufacturing sector. Thus they have to export agricultural goods, raw materials, primary goods and import manufactured goods. Agricultural raw materials that are low in price are exported and the same products are imported at high price when they are turned into manufacturing goods. For this reason there is an imbalance in trade.

10. **Weak Manufacturing structure:** In less developed countries manufacturing structure is primitive and they lack high capital-based industries. In this weak structure of manufacturing industries, the employment is low and the skills of workers are also insufficient.

Task: Compare an underdeveloped country with a developed country.

9.2.3 Characteristics of Developing Countries

Some important characteristics of developing countries are given below:

1. **Agro-based Economy:** Most of the people are directly or indirectly dependent on agriculture. A remarkable part of labour force is engaged in agriculture. In agriculture, primitive methods are used in the small farms. However development of modern technology is noticed here also. There is always a natural disaster like flood, drought, etc.

2. **Per Capita Income:** The per capita income in developing countries is lower than that of developed countries but more than less developed countries. So the standard of living is not so high.

3. **Incomplete Utilization of Natural Resources:** Though most of the developing countries have a lot of natural resources, they are not being completely utilized.

4. **Shortage of Capital:** Per capita income in developing countries is low. So savings are also low. Low savings create problem in the formation of capital.

5. **Primary goods producing country:** Developing countries mainly produce primary goods and use labour intensive technologies. Primary goods mean the raw-materials of any industry, e.g. jute, leather, etc.

6. **Development of Industries:** In the developing countries, industries are in the primary phase but the development of export based labour intensive industries are noticed in some places.

7. **Deficit in Foreign Trade:** Every year in developing countries import expenditure exceeds the export earnings. For this reason these countries have to face trade deficit every year.

8. **Lack of Entrepreneur:** Most of the products in developing countries are from agriculture. The instability in the prices of these products is high. This creates risk for the investors. As a result, development is hampered due to lack of domestic and foreign entrepreneurs.

9. **Weak Economic Infrastructure:** Economic infrastructure like communication and transportation, electricity bank, insurance, etc. is insufficient.

10. **Dependency on Foreign Aid:** The infrastructural development of developing countries depends mostly on foreign aids.

Task: Determine the type of Bangladesh economy.

9.3 Obstacles to Economic Development of Bangladesh

Because of many socio-economic and political reasons, developing counties like Bangladesh cannot prosper quickly.

1. **Dependency on Agriculture:** Though the economy of Bangladesh mostly depends on agriculture, its production capacity is low. Though the development in Bangladesh agriculture is necessary, its advancement is slow.

2. **Underdeveloped Agricultural System:** The agricultural system in Bangladesh is underdeveloped. The use of modern equipment in agriculture is limited. And there is instability in the price of agricultural products.

3. **Lack of Capital:** Since the per capita income in Bangladesh is low, rate of raising savings and capital is also low. As a result, it is not possible to invest as much as is needed for quick development.

4. **Lack of entrepreneur:** Entrepreneurs are the main point for economic development. In Bangladesh, there is a lack of entrepreneurs who are efficient, experienced and ready to take a risk. Due to lack of entrepreneur, savings and capital are used less in the production section. And for

political and economical instability, entrepreneurs are not ready to take only risk and do not come forward as the environment is not investment-friendly. Because of the interest to foreign countries, a good amount of capital goes out also.

5. **High Population:** Bangladesh is a country of high population. It is not being possible to completely use this population in production and work. So a big portion of national production is used for this population, which poses obstacles for development.

6. **Vicious Cycle of Poverty:** One of the main obstacles in the development of Bangladesh economy is the vicious cycle of poverty. According to Professor Narks, "A country is poor because it is poor." Low production, low income, low demand and savings, low investment and low capital are called the vicious cycle of poverty.

7. **Political Instability:** In Bangladesh there is political uncertainty and instability. It is not favourable for domestic and foreign investment. Not only this, the long term development plan is also hampered by this.

8. **Dependency on Foreign Aid:** The economy of Bangladesh is dependent on foreign trade and relationship. It faces obstacles in trade for imbalanced competition with developed countries and for their various conditions. On the other hand, dependency on foreign aid and investment on agriculture, manufacturing and business create obstacles in the development of self-reliant Bangladesh. But because of recent increase in exportation of garments and huge remittance, Bangladesh's dependency on foreign aid is on the decrease.

9. **Weak Marketing:** Weak marketing exists everywhere in Bangladesh. Market price is not profitable for producer due to lack of awareness, weakness in communication and transport system, and lack of fund. The marketing system has not been yet developed in a developing country like Bangladesh. The market price for the producers does not bring any benefit because of the mischievousness of the middle interest.

10. **Obstacles in Application of Technology:** Modem technologies cannot be used in production due to lack of modem technology, costly imported technologies and risks in implementation.

Task: Make a list of the main obstacles to economic development of a developing country like Bangladesh.

9.4 Development Programmes of Non-government Organisations

Non-government organizations mainly work for reducing poverty. Their work expands and accelerates during the time of natural calamities. In Bangladesh many non-government organizations (NGOs) are working to reduce poverty by giving small loans. Many rural foundations, banks and NGOs are working to help the government in fulfilling its development plans. the main NGOs of Bangladesh are BRAC, ASHA, Proshika, Shakti Foundation, Shwanirvar Bangladesh, TMSS, Karitas, Society for Social Service (SFSS) and Bangladesh Bureau.

1. **BRAC (Building Resources Across Communities) :** Established in 1972, BRAC is the largest microcredit-giving NGO in Bangladesh. It works in 70 thousand villages and 2000 slums for the empowerment of the poor specially women and girls.
2. **Shwanirvar Bangladesh:** Shwanirvar Bangladesh was established in 1975. At first it worked as an adjunct cell of Bangladesh agriculture and forestry ministry. It started to work as an NGO for the socio-economic development of the people from 1985.
3. **Proshika:** Proshika started to work in a few villages of Dhaka and Comilla districts from 1975. For economic development of its members Proshika gave microcredit of taka 5070 crore to 1 crore to 26 lakh people till 2013 for environment friendly agriculture, irrigation, increase of domestic animals, bee breeding, fisheries, social forestry, gardening at homes, production of seeds, small business and in many other sectors.
4. **ASA (Association for Social Advancement):** It has been carrying out microcredit programmes since 1992. It has emerged as the largest self-reliant microcredit giving organization in the world now.

5. **Shakti Foundation:** It was established in 1992. It gives loans to the poor women in the slums of large cities such as Dhaka, Chittagong, Rajshahi, Khulna, Comilla, Bogura, etc. Besides, it also works for the development of health, business and social welfare of these women.

6. **TMSS (Thengamara Mohila Shabuj Shango):** It is the largest organization for women development in Bangladesh. This organization has been working for women to reduce poverty and for the development of their socio-economic condition since 1980.

7. **SFSS (Society for Social Service) :** It emerged in 1986 for eradicating poverty of the poor, neglected and deprived men, women and children for making them aware of their rights, health, education, and for ensuring integrated services in order to sustainable social development to happen in the society. The purpose of this organization is to establish sustainable development by alleviating poverty of the poor, neglected and the right-deprived men and women, children of the society and attaining rights for them by ensuring their education and health services.

8. **Bangladesh Bureau:** This organization has been working with sustainable rural savings and loan programmes for poverty alleviation of the poor people. Along with this, the organization is implementing the programmes about health care, pre-primary education development and empowerment of women, sanitation, family planning, social, forestry and tree plantation, disaster management, etc.

9.5 Poverty

Poverty makes a country and its people dependent on others and makes the base of development weak. So it is necessary to know about the concept of poverty, its extent and how to reduce it.

Concept of Poverty

Poverty is a multi-dimensional and relative matter. The people, who earn less, consume less, own small amount of wealth, live in less peaceful condition and consider themselves as powerless and distressed in the society, are generally

considered as poor people. In Bangladesh we consider those people as poor who can not manage necessary calorie and minimum ingredients for living. Thus the family living under minimum earning limit is considered as poor family. The poor people who are ultra poor are counted as acute poor people. The extent of poverty, its rate and prevalence has been presented in the list below:

Table-1

Poverty and Chronic poverty (%) according to calorie intake

Type of poverty		1995/96	2005	2010
Poverty	National	47.5	40.5	31.5
	Rural	47.1	39.5	35.2
	Urban	49.7	43.2	21.3
Chronic poverty	National	25.1	19.5	17.6
	Rural	24.6	17.9	21.1
	Urban	27.3	24.4	7.7

Poverty Trends of Bangladesh

In recent years poverty is measured in Bangladesh as the cost of meeting basic needs. In this measurement both food and non-food products are included. In this chapter mainly the information of income-expenditure survey of 1995/96, 2005 and 2010 conducted by BBS is presented.

From years 1995-96 to 2010, percentage of poverty is reduced from 47.5 % to 31.5% that means at average annual rate it is reduced by 3.3%.

Programmes Adopted for Poverty Alleviation

There are many government and non-government (NGO) programmes for the employment and income for the development of poor people. The government of Bangladesh has undertaken the following programmes to reduce poverty.

1. Social Protection Programme

The main challenge of social infrastructural development is to include women, children and challenged people in the main stream of development programmes. A total of 64 ongoing programmes are being run under various ministries for social protection and empowerment. In these programmes providing cash (special and various pensions), food security, small loans and various funds are included.

Classification of Social Protection Programmes is given below:

a. Aid programmes through providing cash (various pensions)

b. Aid through providing cash (special)

c. Food security programme

d. Providing small loans for self-employment

A. Various Aid Programmes through Providing Cash

A large part of the poor community of the country consists of elderly people, widow, women deprived and abandoned by husbands. The Government has launched allowances for these people, to reduce their poverty. Besides, the Government has also lauched allowances for freedom fighters in recognition of their participation in the liberation war.

B. Aid Programmes through Providing Cash (Special)

Some special aid through providing cash is running under the Social Welfare Ministry of Bangladesh Government. Some of this type of aids are: rehabilitation for the acid victims and challenged people, micro credit, allowance for insolvent disabled people and maternal allowance for poor mothers, etc.

C. Food Security Programmes

Food security is very important to reduce poverty. To ensure food security, food for work programme, VGF under Ministry of Food and Disaster Management, VGD under the Ministry of Woman and Child Affairs of Bangladesh Government are running.

D. Providing Small Loans for Self-employment

Creating opportunities for sef-employment is a good way to reduce poverty. Initiatives have been taken for creating self-employment opportunities under different Ministries of Bangladesh Government. Along with training in live- stock raising, poultry farming, pisciculture for the unemployed young men and women. Microcredit facilities have also been arranged for them. Moreover, initiatives have been taken to reduce poverty by creating employment opportunities through organising co-operative societies, and training in information and communication technology (ICT).

9.6 Unemployment

Defintion of Unemployment

A person who is able and interested to work at current wage rate, but unable to find a job is called an unemployed person. Some characteristics of an unemployee is given below:

(1) Unable to get a job at current wage

(2) Interested to work at current wage rate

(3) Deprived of earning

(4) Suffers from economical and emotional stress

Types of Unemployment

1. **Seasonal unemployment:** This type of unemployment occurs at a certain time of the year due to natural calamities. For example, rural workers, who do not have job except the time of planting the seeds and harvesting, i.e. in the period of time when they remain unemployed during a particular period of time, are called seasonal unemployed workers.

2. **Disguised Unemployment:** Though it seems that there are a lot of workers who are employed in the agriculture sector, in reality many of them have zero marginal productivity. People who have zero marginal productivity are called disguised unemployed persons. Suppose, a farmer has two bighas

of land. He works alone on that land and produces a certain amount of crops. If two sons join him, it will seem that three persons are working. But in reality three of them produce the same amount of crop that the farmer alone used to produce. So the extra two people have the zero marginal productivity. The reason for this is that three of them are dividing the workload of a single persons. Thus these extra two people are called disguised unemployed persons. Therefore, disguised unemployment is a situation where it seems people are working but actually they have zero marginal productivity.

3. **Temporary Unemployment:** Unemployment created due to change of profession is called temporary unemployment. Such as a garment worker starts a business after changing profession. At that time he remains jobless. This time is considered as temporary unemployment. This type of unemployment prevails in our country.

   So, it is due to lack of work except for farming in the rural society of Bangladesh, various types of unemployment mentioned above are seen.

Reduction of Unemployment

For the reduction of unemployment, development in agriculture and non-agriculture sector is necessary. Huge scope for creating new sectors of employment lies in agricultural improvement in irrigation, cultivation of more than one crop, different types of agro-based activities like raising cattle, forestation, raising poultry, fisheries, etc. In the non-agricultural sector, there are possibilities of employment in construction of roads, housing, expansion in small and cottage industries, small businesses, etc. Other than these, it is possible to reduce unemployment by taking the following steps.

1. **Reduction of Disguised Unemployment:** Disguised unemployment exists in the agriculture sector of less developed countries. To reduce this unemployment, higher wages can be given to workers of manufacturing sectors so that labor supply in manufacturing sector increases. Thus excess labor from agriculture will shift to the manufacturing sector.

2. **Investing Capital and Reducing Unemployment:** For the reduction of unemployment if more capital is invested in manufacturing sector the marginal productivity of labourers will increase and thus employment will also increase.

3. **Establishment of Small and Cottage industries for Producing Equipment of Farming:** Small equipment that is necessary for farming can be produced in small and cottage industries. And establishment of these types of industries in rural areas will reduce unemployment.

4. **Establishment of Industries Based on Agriculture in Rural Areas:** The establishment of Industries based on Agriculture in Rural Areas will increase employment in these industries which will increase the production and employment in agriculture. That is, unemployment will be reduced.

5. **Growing Multiple Crops:** Apart from growing only seasonal crops if other crops are also grown at the remaining times or if one crop is grown after another, no agricultural labourer will remain unemployed.

6. **Farming Other Than Crops:** In most of the areas in Bangladesh there are lots of rivers, ponds and other low lands. In these places lots of fisheries can be established. On the other hand, in the high lands, where crops cannot be grown, poultry can be built.

7. **Compulsory Work-Oriented Education Policy:** To solve the unemployment problem in a country like Bangladesh, education policy must be changed. Technical and practical training should be given at all levels to increase the employment in agriculture and manufacturing. Technical and vocational institutes should be established in every district to create the opportunities for the less educated people.

8. **Proving Enough Loans:** After technical and vocational training if loans are given to the rural half-literate people, it would be easier to raise poultry firms, fisheries and animal breeding firms to reduce

unemployment. It can also be solved by establishing small and cottage industries.

Case study : Make an investigative report on the unemployment condition of your area.

9.7 Human Resource

Human resource is very important for economic development. It is required in every sector of development and technology. The value of efficient and trained human resource is very high. So, for the development of all developed and developing counties, the need and importance of human resources are very high.

Definition of Human Resource

The part of population which is included in the labor force through proper education and efficiency is called human resource. But land and capital of a country are called tangible resources. The supply of human resources is required for the utilization of natural resources for economic development. For economic development, both tangible and human resources are necessary. Increasing working capability and efficiency through proper education, training, healthy dwelling places, treatment, etc. is called development of human resources. Efficient human resource is a necessary element for economic development.

Methods of Human Resource Development

For economic development, it is necessary to increase the quality of human resource. For this purpose the following steps can be taken:

1. **Education:** To make people active and efficient, it is necessary to expand education and technical education. Education is necessary for private and national development. Therefore, it is necessary to change the whole education system and encourage vocational education. A person can be illiterate but if they are given technical education, their human resource is improved. An illiterate person being good and efficient farmer can increase the production. Developing countries like Bangladesh lack vocational or technical education. So, it is necessary to increase technical education

everywhere. For this purpose, the number of technical education institutes is to be increased and their standards are to be improved. People educated with technical knowledge can apply their learning in real life.

2. **Training:** Educated and trained people of a country are able to increase the production more. It is not possible to develop the quality of a person who is not trained. Training is necessary for human resource development. If trained people are utilized in more technical work, high returns are possible. Moreover, trained people can take immediate and timely decisions for some work and bring good returns.

3. **Development of Public Health:** Balanced diet, healthy environment, etc. are the basic requirements for maintaining good health. Every person in the country should be introduced to these requirements. It is possible to improve the health condition of those people that have poor health, physical weakness and reluctance to work by offering medical facilities at any cost.

4. **Food and Nutrition:** To turn the population power into human resource it is necessary to make the people aware of balanced diet and nutrition. The government, political parties, doctors, scientists, farmers, labourers all should come forward to fulfill this purpose.

5. **Proper Dwelling Place:** Healthy environment is necessary for increasing working capacity. A safe and healthy living place increases working capacity. Therefore, the government should increase the housing facilities through public and private sectors.

6. **Women Empowerment:** Human resources development can be achieved by involving women in the workforce through education and training. Half of the total population in Bangladesh is women. Economic development is not possible while these people remain at home. It is possible to increase human resources through technical education and training to women.

7. **Plan for the Development of Human Resource:** To increase the working capacity and quality of human resources of Bangladesh, proper plan and its implementation is required. Effective steps can be taken to implement this plan for this purpose. That is, economic development is possible if human resource is developed.

The Source of all information in this chapter: Bangladesh Economic Review 2016.

Exercise

Short Questions

1. Explain the concept of economic development and economic growth.
2. Is growth part of development? Explain.
3. Mention 6 characteristics of least developed countries.
4. Mention 6 characteristics of developed countries.
5. What are the obstacles to economic development?
6. Explain a few names of NGOs.
7. Explain the concept of poverty.
8. Mention a few methods of reducing unemployment.

Descriptive Questions

1. What are the characteristics of least developing countries? Describe.
2. What are the characteristics of developed countries? Describe.
3. Describe the main obstacles to economic development?
5. Discuss in short the programmes undertaken by Bangladesh government for poverty reduction.
6. Describe the types of unemployment in Bangladesh.

Multiple Choice Questions

1. What is development?
   a. part of growth
   b. per capita income
   c. increase in national income
   d. development in other sectors with growth

2. As a result of the instability of prices in agricultural products
   i. farmers are reluctant to step up production.
   ii. disguised unemployment increases.
   iii. small industries increase.

Which of the following is true?

a. i
b. i and ii
c. ii and iii
d. i, ii and iii

Read the following passage and answer question numbers 3 and 4.

Karim drives a rented autorickshaw. His income from this does not allow him to save anything after his expenditures on household chores. He is unable to save money even after driving the autorickshaw for a long time. Finally, he bought a new autorickshaw for himself by taking a loan from the bank.

3. Which concept of economics is Karim's situation related to?
   a. trend of poverty
   b. reduction of poverty
   c. vicious cycle of poverty
   d. decrease in poverty

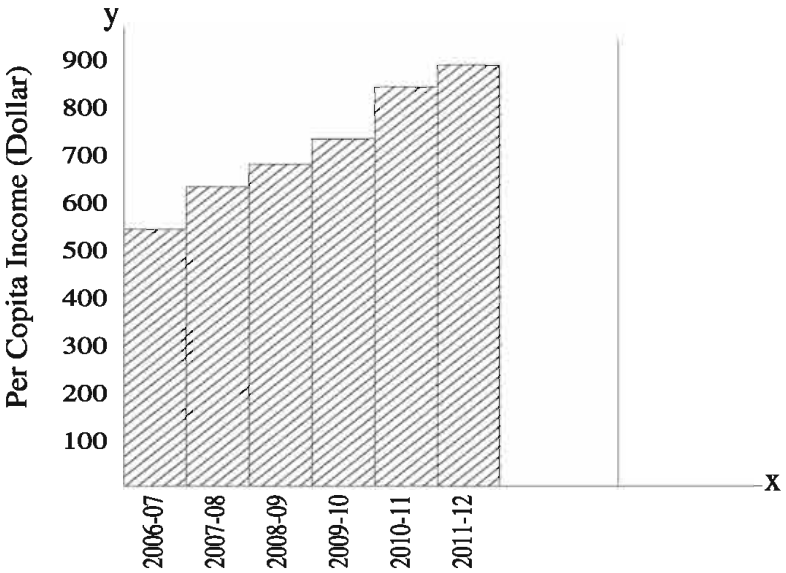
4. By buying a new autorickshaw Karim's
   i. unemployment problem will be solved.
   ii. capital will be generated.
   iii. consumption will be increased.

Which of the following is true?

a. i
b. ii
c. ii and iii
c. i and iii

Creative Questions

1.



Source : Bangladesh Economic Review (June/12)

a. What is human resource?

b. Explain the concept of vicious cycle of poverty.

c. Which characteristics of the economy does the graph show? Explain

d. What driving force, you think, is most responsible for the economic condition shown in the graph? Explain.

2. Tamanna has done her M.A. from National University. But she is still unable to find a job. Nowadays she helps her mother in handicrafts. She passes a good time with her mother but their production or income from the work is the same as before.

a. What is unemployment?

b. Explain the programme Food for Work.

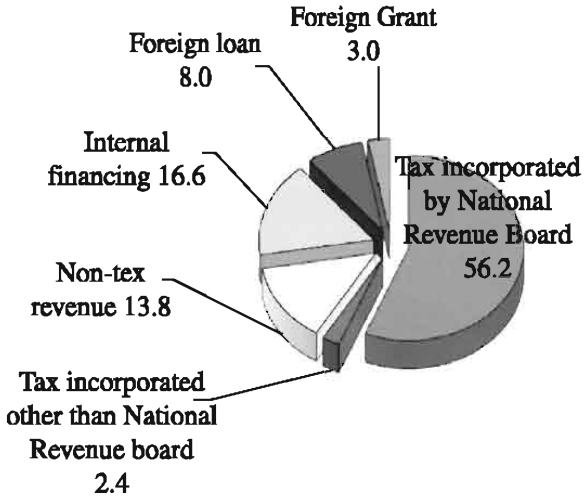
c. Explain the type of work Tamanna does according to economics.

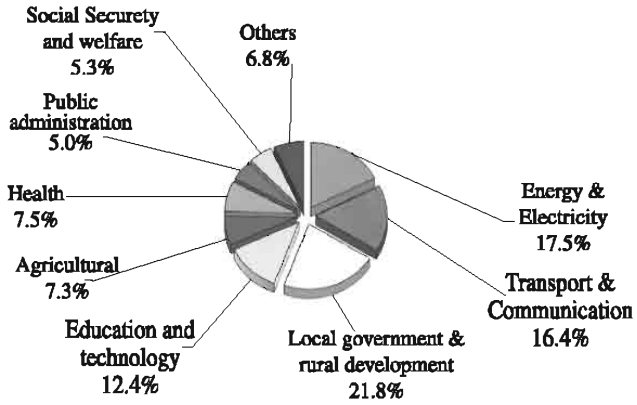
d. Technical education can improve the situation of Tamanna. Explain.

Chapter Ten

The Public Finance of Bangladesh Government

Bangladesh government spends a lot of money to run the administration properly, maintaining the rules and regulations within the country, protecting the country from external attacks and running many projects for the social welfare. The government has to earn revenue from different sources to finance these costs. A budget is the financial plan and a list of all planned expenses and revenues of the government. And these things are discussed in Public Finance.





After studying this chapter, we will be able to

- explain what public finance is.
- explain what the sources of government revenue are.
- explain what the sectors of government expenditure are.
- explain the concept of budget.
- differentiate between current budget and capital budget.
- compare between balanced budget and unbalanced budget.
- explain the budget of Bangladesh government and its classifications.
- identify the sources to finance the development budget of Bangladesh government.
- participate in the discussion of the national budget.

10.1 Public Finance

The branch of economics, in which the revenue and expenditure of the government and things related to loans are discussed, is called the public finance. Public finance discusses in which sectors, how and following what principles the local government will spend for ensuring the maximum social welfare and the economic development of the people. How much and from which sectors it will earn revenues to finance public expenditures, or from where it will borrow are discussed in public finance.

10.2 The Sources of Revenue of Bangladesh Government

Bangladesh is a low middle income developing country. The government has to spend a lot of money for socio-economic development, public welfare, running the administration and maintaining the country's defense system. To finance these expenditures, the government has to collect revenues from different sectors. The government of Bangladesh has two main sources of revenue. For example: a) tax revenue b) non-tax revenue.

a) Tax Revenue

Tax is the revenue which the government compulsorily collects from the public and for which the public cannot demand any direct benefit from the government. The tax, which is imposed on the residents of the country or the non-residents of the country, on different industrial companies and on the products is called the tax revenue.

Board of Revenue

The sources of government revenues are:

1. Taxes on Income and Profit

The tax that is imposed on the personal income of a person is called the income tax. One of the main sources of the revenue of Bangladesh government is income tax. Currently, the people whose income is above taka 2,50,000 (for male); taka 3,00,000 (for female); taka 3,75,000 (for disabled) are bound to give the income tax. Moreover, taxes are also imposed on the profits of the different enterprises.

2. Value Added Tax (VAT)

Bangladesh, like other developed and developing countries, started the system of value added tax from the year 1991-92. In the case of production, there exist a lot of stages from producing the raw material to the final product. In the case of this production process, the tax that is imposed at a certain rate on the value added to different stages of production, is called the value added tax (VAT). Recently, in our country value added tax has been imposed on imported goods and locally produced goods and different service sectors. In future, the areas of the value added tax will be expanded.

3. Customs Duties

One of the major sources of income of Bangladesh government is custom duties. The tax imposed on imported goods and services is called the customs duties.

4. Excise Duties

The tax imposed on domestically produced and used goods is called excise duties. Excise duties are imposed to earn the revenue and also to reduce the consumption of harmful goods. In Bangladesh excise duty is mainly imposed on the goods such as tea, cigarette, sugar, tobacco, kerosene, medicine, spirit, matches etc.

5. Supplementary Duties

For many reasons the government imposes extra tax on some goods even after imposing the excise duty or the value added tax or the customs duty. This extra duty is called the supplementary duty, e.g. supplementary duties imposed on ceramic tiles.

6. Other Taxes and Duties

Other than the five taxes and duties discussed above, the government collects some extra taxes and duties. For example, wealth tax, taxes on petrol and gases, taxes on visiting a foreign country, vacation tax, etc.

7. Narcotics and Liquor Duty

The government earns revenue from imposing duty on narcotics and liquor. By doing this the government earns revenue as well as increases the social welfare.

8. Tax on Vehicles

The taxes given for various vehicles are called the vehicle tax. The government earns revenue from this sector every year.

9. Land Revenue

The tax that is paid by the land owner to the government for owning and using the land is called the land revenue. Bangladesh government has imposed development tax on land.

10. Non-Judicial Stamps

Non-judicial stamps are used on wills and the application forms of the cases. The government earns a lot of revenue from this sector every year.

b. Non-Tax Revenue

The government earns a lot of revenue other than taxes and duties. Revenue collected from these sources is called non-tax revenue. The sources of non-tax revenue of the government are:

1. Dividend and Profit

The government gets dividend and profit at the end of the year from its organizations such as insurance companies, non-financial organizations (for example, nationalized industries, parks, zoos, etc.).

2. Interest

The government gives loan to the public service holders, and many financial and self-governing organizations. So it earns some revenue as the interest of those loans.

3. Administrative Fee

The government earns different types of fees from the public for grvmg them administrative services such as court fees.

4. Fine, Penalty and Confiscation

The government collects some revenue through fine, penalty and confiscation from those who commit misdeeds that are against the rules and regulations of the country.

5. Economic Services

The government gives services to the people through its various organizations. Among these services the important ones are: the fees received from import-export as per law, the registration fees from commercial organizations and companies, income under insurance law and audit fees from co-operative societies registration and renewal fees from co-operative societies, etc.

6. Rent and Lease

By giving public property on rent and lease, the government earns a lot of revenue each year, e.g. lease on a haat.

7. Toll and Levy

The government also collects revenue through toll and levy imposed on various bridges.

8. Non-Business Sales

Sometimes the government sells products without any profit for the wellbeing of the people, e.g. open-market sale (OMS).

9. Railway

Bangladesh railway earns money through the services of transportation of public and products. The profit in this sector has increased due to the expansion and modernization of railway service.

10. Postal Department

Bangladesh postal department is run by Bangladesh government. For this reason it is a revenue source of the government. This department gives varieties of services, thus its income has slightly increased from the fiscal year 2001-02.

The revenue sources of the government mentioned above are not enough to finance its expenditures. For this reason, the government has to depend on foreign loans, aids, grants.

Task: Make a list of revenue sources of Bangladesh government.

Task: Find out the ways of increasing revenue sources of Bangladesh government.

10.3 The Sectors of Expenditures of Bangladesh Government

Bangladesh is a low income people's welfare state. For socio-economic development, human resource development, poverty reduction, protecting the country from external forces and running it and for the wellbeing of the people, the government has to pay a lot of money every year. The field of work of the government has increased with the growth and development of democracy. For this reason many new sectors have been included in the heads of the expenditures of the government.

The main heads of expenditures of Bangladesh government

1) Education and Technology

For developing human resources the government has to pay a lot of money for the expansion of primary education, quality development, and expansion of technical and vocational education, development of female education, increasing the number and amount of scholarship to encourage the students and increasing tertiary education. The government spends a good amount of money on information and technology to develop the socio-economic condition by using technology in education.

2. Defense

To protect the country from external forces, the government has to spend a huge amount of money to buy weapons for wars, to provide proper training, salary, shelter and treatment to the people of defense. Some expenditure in this sector remains hidden for the national safety.

Naval-craft

3. Public Administration

To rule the country the government has to accomplish the work related to public administration. It has to spend a great amount of money for the people working in the administration for their salary and bonus, and for running the office.

Bangladesh Secretariat Building

4. Public Control and Protection

For maintaining internal peace and discipline and for ensuring safety for people's life and property, the government has to spend a lot of money to create and maintain police and paramilitary forces, and to give them training and others facilities.

5. Agriculture, Agro-based Industry and Agricultural Research

The government has been gradually increasing the allocation of subsidy on agriculture and loan to enhance and develop the agriculture and agro-based industries. Bangladesh government has started to contribute to the agricultural research since financial years 2007-08.

Agriculture

6. Public Health

To ensure public health, the government has to establish hospitals and medical colleges, give free medicines, prevent plague, train the doctors and nurses, etc. and so it has to incur a great expenditure in this sector. To ensure the health services in the rural areas health complexes have been built and one M.B.B.S doctor and a health instructor have been appointed. For this reason, the expenditure has increased.

7. Social Security and Welfare

Bangladesh government spends as per its ability a lot of money for social security for the livelihood of the helpless and destitutes such as providing allowances for elderly people and widows, rehabilitation of the acid-victim women and challenged people, national honour allowances for the freedom fighters, allowances for the reduction of unemployment caused by natural and geographical reasons, providing fund for the skills development of the readymade garments employees and the homeless, for one-hundred-day work programmes, for Ekti Bari Ekti Khamar and for rationing for the destitute people.

8. Electricity and Fuel

To meet the increasing demand for electricity the government spends a lot of money to produce and distribute more electricity, to make fund for the renewable energy and in many other sectors.

Electricity Supply

9. Transport and Communication

To develop the transport and communications system in Bangladesh the government spends a lot of money through the different projects of the ministries of communication like road, railway, navy, private airways and tourism, postal and telecommunication department.

10. Poverty Alleviation and Employment

Our current government has started to give various kinds of technical training to the poorly educated and physically powerful unemployed youths in different

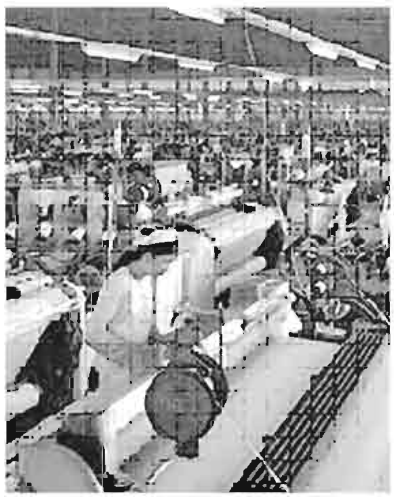
districts for two years through the 'National Service' project to solve the unemployment problem. It distributes more than 10 lakh metric ton of food grain through the projects of T.R, G.R, B.G.F, and V.G.D. The government has given small loans in favour of different ministries for the creation of employment for the poor people. The government has to spend a lot of money in these sectors.

11. Repaying the Loan and Interest

The government takes a lot of money as loan from both the domestic and foreign sources to finance its development projects. So it has to pay a huge amount of money to repay these loans and the interests of these loans.

12. Industrial and Economical Services

For the development of the country's various industrial and economic service sectors, the government spends a lot of money. It spends money through the ministries of industry, business, labor and employment and the ministry of expatriates. To distribute loans to the small entrepreneurs for small and moderate industry sectors, Bangladesh Bank has drawn up a reinvestment plan by encouraging banks and financial institutions.



Garments Industry

13. Environment and Forestry

Protecting the environment and increasing its standard, saving it from industrial pollution, establishing refinery for industries that produce liquid wastage, etc. cause a huge expenditure to the government and it spends this money through ministry of forestry.

14. Entertainment, Culture and Religion

Every year government spends a lot of money on information, culture, religion and youth and sports development.

15. Local Government and Rural Development

To run the local government division, rural development and co-operative divisions and Chittagong Hill Tracts ministry, Bangladesh government spends a lot of money.

Other than the above sectors, Bangladesh government also spends money on women and children, water resources, fisheries and animal resources, housing, food and disaster management. According to the government statement, the government of Bangladesh spends revenue on non-development expenditures in 55 sectors and under the development projects nearly in 18 sectors. In the light of modern social welfare, the government should spend more on development projects and reduce expenditures on non-development projects.

Source: Finance Department, Finance Ministry.

Task: Make a list of the allocations of funds for expenditures sector wise made by Bangladesh government.

Task: Find out the reasons for increasing expenditures of Bangladesh government in recent years.

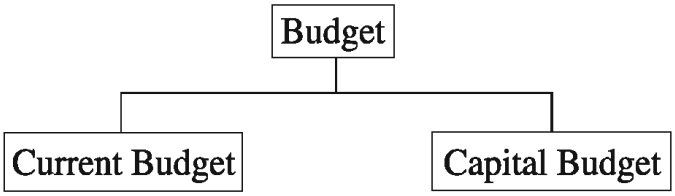
10.4 Budget

The planned estimate of incomes and expenditures is called a budget. If a person designs systematically the incomes they get from different sources and how they spend them, it is called the personal budget. In the same way, the government's revenue of a particular year, how much revenue it expects from different sources and how much it wants to spend in different sectors, is called the government budget. The fiscal year of Bangladesh is from July to June.

The budget is the main instrument of the economic system. It shows the political view of the government and also the economic condition of a country. It not only reflects the actual calculation of the income and expenditure but also the systematic plan of the income and expenditure of the government. It also lists the way how the deficit will be tackled if expenditure is more than income and the way of using the surplus money if income is more than expenditure.When the budget is ready it has to be passed in parliament and with the permission of the president the new fiscal year starts according to the new budget.

Types of budget

According to the types of income-expenditure of the government the budget is mainly of two types:



Current Budget

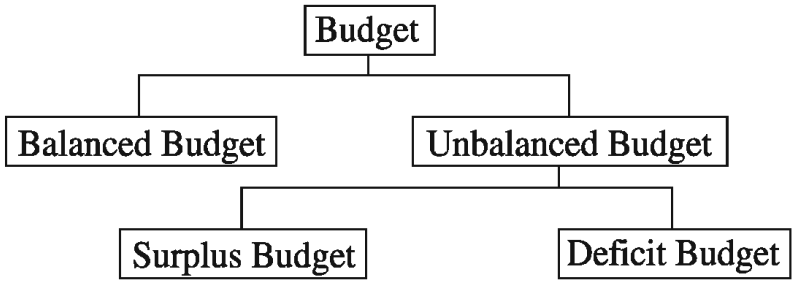
The budget which shows the current income and current expenditure of the government, is called the current budget. Current income is collected from tax and non-tax revenue. Value added tax, income tax, wealth tax, land tax, etc. are important in tax revenue. The dividend and profit of various companies and interest on loans are the main sources of non-tax revenue. The income from this budget is used to finance the expenditures of the administrative jobs properly and for national defense. Main expenditure sectors of this budget are education, public administration, police department, health and family planning etc. Since these sectors remain unchanged, reallocation in these sectors every year is required. Usually there is always surplus in the current budget.

Capital Budget

The budget which shows the capital income and expenditure of the government is called the capital budget. The main purpose of this budget is the socio-economic development. For this reason the government plans a yearly development program and collects revenue from various domestic and international sources to finance it and to put it in action. The sources of income from the country are surplus revenue, private savings and charging extra tax etc. and the sources of income from outside the country are foreign loans, grants etc. Under the annual development programs, agriculture, industry, electricity and fuel, woman and youth development, transport and communications, rural development, housing, etc. are important. The main purpose of this budget is to attain economic development and growth.

Task: Differentiate between current budget and capital budget.

According to the balance between income and expenditure, the budget is mainly of two types:



1. Balanced Budget

At a certain time, if the expected income and expected expenditure of the government are equal, it is called the balanced budget. In this budget if expenditure is coordinated with the income, there is a less possibility of inflation or rise in price level and thus there is stability in the economy. But in a developing country like ours, this type of budget is not helpful to reduce unemployment problems, develop the economy and to fight the emergency situations.

Formula: Balanced Budget = Total Income - Total Expenditure = 0

Therefore, Total Income = Total Expenditure

2. Unbalanced Budget

At a certain time if the expected income of the government is not equal to its expected expenditure, it is called the unbalanced budget. There are two types of unbalanced budget according to the inequality of income and expenditure of the government.

a) Surplus budget
b) Deficit budget

a) Surplus Budget

In a fiscal year if the expected expenditure of the government is less than its expected revenue, it is called the surplus budget.

That is, in this budget income is more than expenditure.

Formula: Surplus Budget = (Total Income - Total Expenditure) > 0

Therefore, Total Income > Total Expenditure

b) Deficit Budget

In a fiscal year if the expected expenditure of the government is more than its expected revenue, it is called the deficit budget. To cope with deficit the government borrows money from the public, creates new money, borrows money from the central bank, takes foreign loans and grants.

This type of budget is useful for developing countries like ours for the efficient allocation of resources, for the increase in employment, per capita income and for raising the level of standard of living of the people. But the creation of new money may cause the rise in price level and inequality in income.

Formula: Deficit Budget = (Total Income - Total Expenditure) < 0

Therefore, Total Income < Total Expenditure

Task: Write down the differences between surplus budget and deficit budget.

Task: Write down the differences between balanced budget and unbalanced budget.

10.5. Bangladesh Government Budget

Bangladesh is a developing country. The fiscal year of this country is July-June. Every year in the first week of June the finance minister presents primary budget in the parliament, which is finalized after being discussed, criticized and changed if it is required and then passed in that very month in the parliament.

Jatiya Sangsad

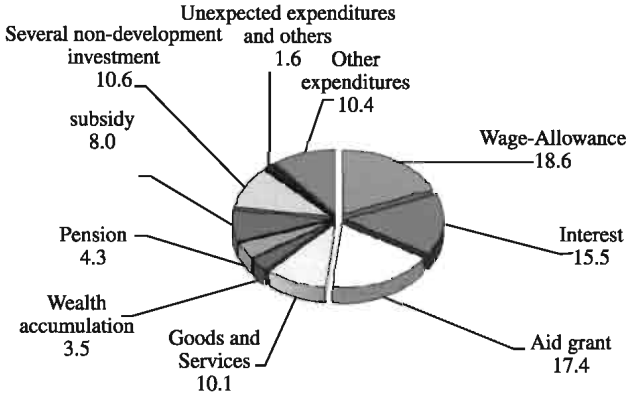
In our country the budget is represented in two parts.

a) Non-development budget

b) Development budget

a) Non-Development Budget

The part of the budget in which the government's regular income-expenditure is shown and the expenditures are not directly involved in the development is called the non-development budget. The main purpose of this budget is to maintain the country's defense system and to conduct the economy properly. Economical plans are not part of this budget.



Expenditure sectors of non-development budget

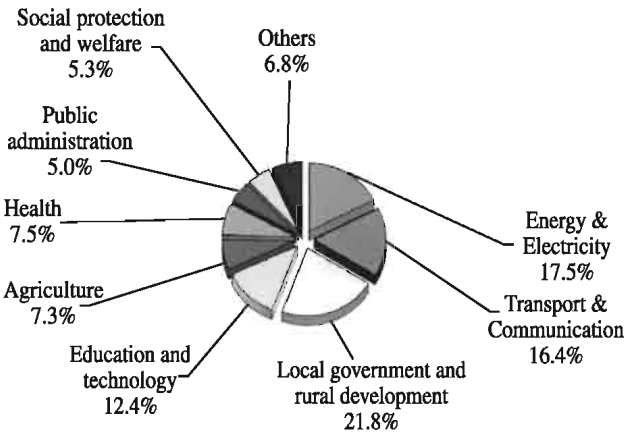
The income of Non-Developmental budget is collected from Revenue from the Tax and Non-Tax Revenue, which are as follows:

Revenue from Tax	Non-Tax Revenue
Tax on income and profit	Dividend and profit from states owned enterprises
Value added tax	Interest
Custom duty	Administrative fees
Excise duty	Fine, penalty and confiscation
Supplementary duty	Revenue from various services
Land tax	Rent and lease
Tax on vehicles	Toll and levy
Tax on selling stamps	Railway
Narcotics and liquor duty	Postal department
Other taxes and duties	Wire and telephone department
	Other non-tax revenue

Expenditure sectors of non-development budget	
Education and technology	Social security
Public administration	Repaying loan and interest
Defense	Health and family planning
Public control and protection	Entertainment, culture and religion
Transport and communication	Unexpected expenditure

b) Development Budget

The part of the budget which shows the income-expenditure of the development projects is called the development budget. It shows the details of the government's annual development projects and the sources of expected income and expenditure. The main purpose of this budget is to achieve economic development and growth in a planned way. For this reason, it is necessary to draw up new projects every year.



Revenue sources and expenditure sectors of development budget

Revenue sources	Expenditure sectors
Internal sources: 1. Surplus of non-development budget 2. Revenue from charging extra tax 3. Loan from internal banking system 4. Borrowing through bonds External sources: 1. Foreign grants 2. Foreign loans	1. Agriculture and industrial development 2. Local government and rural development 3. Transport and communications development 4. Electricity and fuel 5. Education and technology development 6. Water resource and flood control 7. Housing 8. Labor and human power 9. Woman and youth development 10. others

Task: Identify which part of the budget of Bangladesh government is in the non-development sector and which is in the development sector.

10.6 At a glance the budget of year 2017-2018 and Revised budget 2016-2017 of Bangladesh government

(Taka in crore)

Description	Budget 2017-18	Revised Budget 2016-17
Revenue and foreign grant Revenue receipt	2,87,990	2,18,500
Taxes	2,56,812	1,92,261
NBR Tax revenue	2,48,190	1,85,000
Non NBR Tax revenue	8,622	7,261
Non-tax revenue	31,179	26,239
Foreign grant	5,504	4,694
Total Revenue:	**2,93,494**	**2,23,149**
Expenditure:		
Non-development expenditure	2,34,013	1,92,932
Non-development expenditure of revenue of which	2,07,138	1,78,154
Interest of domestic loan	39,511	33,495
Interest of foreign loan	1,946	1,863
Non development capital expenditure	26,875	14,778
Food account operation	361	561
Loan and advances (net)	6,879	7691
Development expenditure	1,59,013	1,15,990
Development program finance from revenue budget	249	370
Non ADP Projects	3,512	2,987
Annual development programm	1,53,331	1,10,700
Food for Work project	1,921	1,933
Total expenditure:	**4,00,266**	**3,17,174**
Total deficit	1,06,772	93,900
Financing		
Foreign Borrowing	46,420	24,077
Domestic Borrowing	63,352	69,903
Financing from banking sector	28,203	23,903
Loan apart from banking sector	32149	46,000

Source: Government of Bangladesh budget-2017-18

There are mainly two parts in this budget. For example, non-development budget and development budget. According to the balance between revenue and expenditure, the budget of Bangladesh government for the year 2016-17 is a deficit budget.

Task: Give your opinion about the funding of the development budget of Bangladesh.

[**The Source of all information of this chapter:** Bangladesh Economic Review 2017.]

Exercise

Short Questions

1. What is public finance?
2. What do you mean by value added tax?
3. What is meant by budget?
4. What do you mean by current budget and capital budget?

Descriptive Questions

1. Explain the revenue sources of Bangladesh government.
2. Explain the expenditure sectors of Bangladesh government.
3. What is budget? Explain the types of budget according to the pattern of revenue-expenditure of the government.

Multiple-Choice Questions

1. Income tax is imposed on
   a) personal income.
   b) income of the company.
   c) income from the vehicles.
   d) income from the land tax.

2.

Fiqure : A

Fiqure : B

Fiqure : C

Fiqure : D

Which figure has the non-tax revenue sources?

a) figure-A
b) figure-B
c) figure-C
d) figure-D

2019

Read the following table and answer questions 3 and 4.

Budget of the governments of two countries in a fiscal year:

Country-A	
Expected Income (taka)	Expected Expenditure (taka)
1000 crore	1100 crore

Country-B	
Expected Income (dollar)	Expected Expenditure (dollar)
20 lakh billion	20 lakh billion

3. Which kind of budget does country-B have?
   a) balanced b) unbalanced c) deficit d) surplus
4. Due to the budget of country-A
   i) natural resources will be completely utilized.
   ii) the standard of living will be increased.
   iii) there is a possibility of increase of the price of goods quickly.

Which of the following is correct?

a. i and ii b. i and iii c. ii and iii d. i, ii and iii

Creative Questions

1. Ishrat goes shopping in a departmental store. She has to pay more than the actual price. When she asks the salesman about this, he replies,
   "It is charged by the government upon sales from the customer."
   a) What is land tax?
   b) Explain supplementary tax?
   c) Which revenue source of the government is the extra tax charged from Ishrat part of?
   d) Compare excise tax with the tax given by Ishrat.
2. Jahid studies in a school. Everyone in their school is happy because a new building is being constructed. He finds out that this year the government has sponsored a big budget for their school. He does not know what budget is. So he asks his teacher and the teacher tells him that this is also an expenditure of the government like their salary, which is also provided through the budget.
   a) Give a definition of budget.
   b) What do you mean by public finance?
   c) Which budget of the government provides funds for the construction of Jahid's school building? Explain.
   d) The budget of Jahid's school will help the overall development of the country. Analyse.

The End

2019

Academic Year

9-10 Economics

সমৃদ্ধ বাংলাদেশ গড়ে তোলার জন্য যোগ্যতা অর্জন কর

-মাননীয় প্রধানমন্ত্রী শেখ হাসিনা

মিতব্যয়ী কখনও দরিদ্র হয় না

নারী ও শিশু নির্যাতনের ঘটনা ঘটলে প্রতিকার ও প্রতিরোধের জন্য ন্যাশনাল হেল্পলাইন সেন্টারে
১০৯ নম্বর-এ (টোল ফ্রি, ২৪ ঘন্টা সার্ভিস) ফোন করুন

শিক্ষা নিয়ে গড়ব দেশ
শেখ হাসিনার বাংলাদেশ

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